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KOREAN UNIFICATION: THE WAY FORWARD

by

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KOREAN UNIFICATION: THE WAY FORWARD

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ABSTRACT

This thesis will examine three potential scenarios for the unification of the Korean peninsula and discuss their pros and cons.

1. The collapse of the DPRK government followed by its absorption into the ROK's current governmental structure.
2. A possible Free Trade Area (FTA) encompassing the Korean peninsula with the potential to expand to neighboring nations.
3. The establishment of Special Economic Zones (SEZ) within the DPRK using business practices from both the ROK and the PRC models to strengthen their economy and national ties.

A matrix of five variables will be used to measure the effectiveness of each scenario including time, cost, stability, international acceptance, building trust between the two Korean states. The scenarios will also be examined through the lens of the theory of economic interdependence to understand the importance of economic engagement throughout the Korean Peninsula including the economic path of each state. The hypothesized end state would encompass a single Korean nation that actively participates in the international community while remaining free of nuclear weapons. I will dedicate a section to understanding how this new nation might emerge on the international scene as well as how the neighboring countries view the possibility of a unified Korean nation.

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I. HISTORY OF THE KOREAN PENINSULA

A. INTRODUCTION

Why has the Korean peninsula hosted two states since the end of the Second World War, and what options are available to create a peninsula united as a single nation? I intend to look at various policies that can help to unify the Korean peninsula, merging the Republic of Korea (ROK) and the Democratic People's Republic of Korea (DPRK) into a nation under one governmental system. This thesis will focus on the commonly accepted scenario of an internal collapse of the DPRK, as well as two alternative scenarios concentrating on the benefits of expanding the DPRK economy through increased economic engagement while encompassing the theory of economic interdependence. The economic environment on the peninsula is often overshadowed by the vast security concerns but has the potential to develop a strong relationship between the two Korean states that can lead towards unification. The international community prefers a unification of the Korean peninsula when the economies of both Korean states are stable and growing while moving towards a set of similar goals. The desired end state would meet three milestones: 1. a unified Korean peninsula, 2. a peninsula free of nuclear weapons and 3. a nation that actively participates within the international community. This thesis focuses on the following scenarios:

1) The first scenario examines the potential of a collapse of the DPRK's government followed by an absorption by the ROK's current governmental structure. This unification scenario has the potential to cause intense shockwaves throughout the international community both economically and politically. The new nation may wish to maintain the nuclear weapon arsenal already present within North Korea's borders but the international community will mostly persuade the nation to dismantle its arsenal through diplomatic channels. The long-term end state has the possibility to meet the three requirements stated above. The ROK has shown its resilience towards absorbing external shocks and its willingness to accept assistance from the international community throughout its history that will help achieve the end state through this scenario.

2) The second scenario focuses on a possible Free Trade Area (FTA) throughout the peninsula with the potential to expand and include the nations of the United States, the People's Republic of China (PRC), Russia and Japan. This scenario will allow the DPRK to strengthen its economy, while providing its government an alternative source of income to the development and sale of weapons, which can halt its nuclear weapons program. The close relationship of the nations involved in the FTA can help guide the future of the DPRK and the Korean peninsula as a whole. This scenario has the potential to achieve the goals of removing the nuclear weapons from the peninsula and incorporating the DPRK into the international community but may not achieve a unified Korean peninsula.

3) The third scenario deals with the establishment of Special Economic Zones (SEZ) within the DPRK using business practices adopted from the ROK and the PRC to strengthen its economy. This will give the DPRK an alternate source of income besides its weapons programs while focusing on the development of state institutions. The main advantage of an SEZ scenario focused toward the ROK will be the DPRK's minimal interaction with the international community. The ROK, along with the zones themselves, will act as a gateway to the global community allowing the North Korean society to absorb new ideas through a prolonged period. The nations close interaction has the potential to create an atmosphere where trust can be built between the DPRK and the ROK as both states benefit from an increase in intra-Korean trade, which can assist in transitioning to a single nation.

I use a metrics to measure each scenario with the following variables: the amount of time each scenario will take to reach a unified nation, the cost of each scenario encompassing both the Korean states along with the international community, how each scenario will affect regional and world stability, how each scenario will be accepted in the international community and the applicability of each scenario to build trust. I feel these five variables are the most important when dealing with the Korean peninsula.

The time associated with each scenario is an important variable, as a rapid unification will call for the international community to provide immediate assistance and more importantly, a longer period with the risk of a violent lashing out by the north prior to final reunification. The costs of unifying two independent states has been elevated since the removal of the Berlin Wall and the burden carried by the international community in regards to the cost associated with uniting East and West Germany. Many scholars believe the cost to unify two nations only surface when dealing with an abrupt collapse, however I use the term cost to measure the amount of money needed to level the standard of living among the citizens of the new nation.¹ The stability of the Korean peninsula and the region of Northeast Asia have been inconsistent in the last twenty years and needs to be viewed whenever discussing these two states. Actions by different nations on the peninsula have lead many to believe conflict was inevitable, only for a temporary peace to emerge after numerous nuclear emergencies and various political policies. The current policy of the DPRK regime to keep the international community outside its nation prevents any organization to understand the severity of its problem and to effectively plan for future endeavors. While dealing with the two Korean states, the surrounding nations along with the international community must work to create a nation acceptable by the world community that removes potential flashpoints and military confrontations in the region. This final variable of trust throughout the peninsula continues to be absent in intra-Korean negotiations and keeps the nations from formulating and reaching common goals.

B. IMPORTANCE

A unified Korean peninsula has been the goal of the Korean people since it fell under Japanese control in the late nineteenth century and later become a Japanese colony in the early twentieth century. After the Second World War, the Japanese were removed from the Korean peninsula, only to be replaced by two new superpowers. The Union of

¹ Han Aran, "Term 'reunification cost' inappropriate," Korea.net, October 31, 2007, http://www.korea.net/News/News/NewsView.asp?serial_no=20071026027 (accessed February 5, 2009).

Soviet Socialist Republics (USSR)² and the United States of America quickly flexed their influence on the devastated peninsula and created two occupational zones. The northern zone fell under the USSR while the southern zone was under the guidance of the United States without the input from the Korean people.³ These zones would eventually form the current boundary between the DPRK and the ROK along the 38th Parallel. The two superpowers continued to support their respective Korean state throughout the Cold War while neither pushed for progress towards unifying the peninsula. Although Korea was not the only nation divided after the Second World War, it remains one of the only countries still divided after the end of the Cold War.⁴

I examine various policies and institutions that can help to unify the Korean peninsula into a nation free of nuclear weapons who actively participates in the international community. Focusing on the three scenarios, I will examine how each different path can be implemented to help ease a transition from two fundamentally different countries into a cohesive nation. I will use the economic interdependence theory to understand the role of economic engagement can play towards unification. I will conclude with the scenario, which I feel is the most probable that can achieve the desired end state.

C. WHY UNIFICATION MATTERS

The two Koreas, often-labeled shrimps between two whales, were forced to accept the policies of their power neighbors, while a unified Korean peninsula has the potential to influence Far East Asian policies.⁵ Understanding the different scenarios can

² I use both the terms USSR and Russia to describe the present day Russian Federation. The term USSR is used between the years 1922 and 1991 while the term Russia is used for periods outside of the aforementioned time.

³ Jay Speakman and Chae-Jin Lee, *The Prospects for Korean Reunification* (Claremont, Calif: Keck Center for International and Strategic Studies, Claremont McKenna College, 1993), 11.

⁴ Ibid., 5. China is the other divided nation with the PRC on the mainland and the ROC located on the island of Taiwan.

⁵ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 174.

help understand the role a unified Korea may take and understand the future of the region. This can aid policy makers with interest in the region about future decisions concerning both regional and global policies toward the Korean peninsula.

The fall of the USSR in early 1990 brought a glimmer of hope for unification, but over time only uncovered the differences between the two Korean states. In 1994, many theorists believed the DPRK would collapse following the death of Kim Il-Sung, only to witness his son, Kim Jong-Il, take control of the nation and keep the state intact. Since 2002, North Korea has experienced numerous failed economic reforms, witnessed a continued decline in the health of Kim Jong-Il and the actions of their main ally, China, move towards a capitalist economy. The possibility of a unified Korean peninsula again arises after a thaw in the long freeze in intra-Korean affairs. While much literature is available on various possible unification scenarios, one common theme arises: the unification of a Korean peninsula will only occur when the two Korean governments reach a mutual understanding and agree on a common set of goals. Outside nations, no matter how influential they once were on the Korean peninsula, cannot force policy between the two Korean states that can lead to unification. Scholars believe a unified Korea with one government can “spur a diplomatic revolution in Northeastern Asia” increasing both security and economic growth for all regional players.⁶

Increased economic activity between the two Korean states can increase the flow of information and lead to an increase in intra-Korean trust. The business sectors holds the key to unlock the chains on current communications needed to continue intra-Korean negotiations allowing each governmental to gain the confidence of the other, which Edward Olsen holds as a key element prior to unification.⁷ Once economic ties are established and stable, the governments can set and reach desirable benchmarks that assist in leading to a unified Korean nation.

⁶ Robert Dujarric et al., *Korea: Security Pivot in Northeast Asia* (Indianapolis, Ind: Washington, DC: Hudson Institute; Distributed by the Brookings Institution Press, 1998), 5.

⁷ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 155.

D. HISTORY OF A UNIFIED AND DIVIDED KOREA

The history of the Korean peninsula led to many of its modern day policies, particularly the DPRK's distrust of foreign powers. Examining the history of the peninsula can help one to understand the sensitive nature associated throughout the peninsula and the importance of working towards an agreement via both Korean states. The area of Northeast Asia has a tendency to remember past atrocities committed by neighboring countries that has lead to stalled negotiations in the current diplomatic forums. The actions of foreign powers on the Korean peninsula are intrusive and helped spur the DPRK's philosophy of Juche, which remains an obstacle to unification, as they do not readily accept assistance from outside nations without a shared history.

The first unified Korean nation emerged under the Shilla Kingdom after intense warfare broke out on the peninsula. The new Korean nation possessed a common language, internationally recognized borders and ethnic homogeneity that was absent in the western world until the Treaty of Westphalia in 1648.⁸ The ability of the different kingdoms to combine elements of their civilization into a common nation of Korean can assist in future unification attempts. The differences between the ROK and DPRK can again be combined to create a strong Korean nation. The common culture and heritage throughout the peninsula must be the foundation utilized to merge the two Korean states as a tool to ensure ethnic and religious conflict does not occur during the unification process.

The Koryo dynasty was able to build upon the foundation set in place by the Shilla Kingdom as they rose to power over the peninsula.⁹ The Koryo Dynasty hosted its capital in Kaesong, located roughly in the center of the peninsula, which would later become the cornerstone of present day intra-Korean policy. They also established two sub-capitals, one in the northern region of the peninsula in the city of Pyongyang and a

⁸ Bruce Cumings, *Divided Korea: United Future?* (Ithaca, NY: Foreign Policy Association, 1995), 7.

⁹ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 21.

southern capital in the city of Namkyung, which would become present day Seoul.¹⁰ This could again become a model for establishing a new government, located in Kaesong, while the two states merge their societies. Creating a new capital north of the 38th parallel will demonstrate the ROK did not absorb the DPRK, but a new nation favorable to all Korean citizens emerged. The cities of Pyongyang and Seoul can be used as regional capitals to report to Kaesong utilizing the current infrastructure to house organizations that can assist in the transition.

The demise of the Koryo dynasty came when one of its generals, Yi Song-gye, rejected the foreign presence on the peninsula and created the groundwork for the Yi Dynasty, also referred to as the Chosun Dynasty.¹¹ The ability of these past dynasties to rule a unified Korean peninsula brings hope to the people of the peninsula and demonstrates the level of homogeny throughout Korea. Many traditions and customs associated with modern day Korea originated under the Yi, notably the close relationship between Korea and the people of China. The complexity of Korea's relationship with China will play a pivotal role in any international attempt to assist during unification.

However, some policies from these historical times are still present and create obstacles to moving forward. Politically, the cultural acceptance for individuals to retain power for large periods of time, 10 or more years in the modern age, can be credited to the Yi Dynasty. The acceptance of the Kim family's rule and their policy of spying on local governments are traced back to practices used during the Yi Dynasty.¹² A unified Korea may have citizens who wish to see the Kim family retain some position of power, which is contrary to the international preferences. This may decrease the acceptance by the international community for a new Korea nation as many nations wish to see the Kim family removed all power on the peninsula.

¹⁰ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 22.

¹¹ Ibid.

¹² Bruce Cumings, *Divided Korea: United Future?* (Ithaca, NY: Foreign Policy Association, 1995), 13.

The desire by Yi officials to refrain from participating in international trade by isolating the majority of its people from the emerging trade routes earned the peninsula the label of “the Hermit Kingdom,” the same title that has been liberally applied to modern day North Korean.¹³ Ironically, the downfall of the Yi Dynasty coincides with the signing of its first modern international treaty with Japan in 1876, which legally opened the peninsula to foreign presence and pressures.¹⁴ The Kangwha Treaty opened the ports of Pusan, Inchon and Wonsan to the Meiji government in Japan to increase the Japanese trade. Within a few years, western powers demand and received the same opportunity for economic trade with the Yi Dynasty held by the Japanese.¹⁵

Once the Yi opened the Korean borders, a flood of merchants came into the society and began to weaken the government’s control over its citizens. Within a few decades, the Yi Dynasty needed new ways to modernize in order to keep up with the rapidly evolving East Asian environment. Many Korean diplomats blamed China for encouraging the treaty as well as Japan and the United States for exploiting Korean citizens for their own economic advancement. The distrust of foreign powers would continue to increase throughout the Yi’s rule while it sought new diplomatic ties to save the dynasty. The opening of North Korean borders for economic gain must be done in a way that is not viewed as economic colonization, which could be referenced back to the Yi Dynasty and its downfall.

Korean diplomats turned towards Czarist Russia as a new mentor and source of political guidance to help balance the region. However, when the Russians tried to flex their political might on the Korean Peninsula it resulted in a Japanese response that started the Russo-Japanese war in 1904. Korea’s future was now in a state of limbo as its new mentor fell on the losing end of a war with an Asian neighbor. In September 1905, Japan emerged victorious and took a dominant political presence on the Korean

¹³ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 34.

¹⁴ Bruce Cumings, *Divided Korea: United Future?* (Ithaca, NY: Foreign Policy Association, 1995), 13.

¹⁵ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 38-40.

peninsula. In an attempt to secure the dynasty, the Yi leaders signed a treaty in November 1905 that placed Korea's security under the emerging Japanese empire.¹⁶

These intrusive actions by foreign powers over Korea's future created a feeling of distrust for outside nations and the groundwork for the Juche philosophy to emerge. While an atmosphere of distrust started during the Yi Dynasty, it continued to grow after the peninsula formally fell under Japan in August 1910 ending the Yi Dynasty. The next 35 years of Japanese colonial rule was viewed as "illegitimate and humiliating" by many Korean citizens adding to the level mistrust of foreign powers.¹⁷ Throughout the occupation, the Korean people struggled to maintain their heritage and identity while being forced to learn Japanese practices.

On August 14, 1945, the Second World War in the Pacific ended. The day is marked as a holiday in both Korean states; however, it was not the joyous moment many Korean citizens expected.¹⁸ Military forces from the USSR and the United States replaced the Japanese occupiers and decided the fate of the Korean peninsula without the influence of the Korean people. The United States and the USSR felt Korea was not capable of ruling the peninsula without external assistance and made decisions that ultimately lead to the modern day division. The distrust of the United States by the DPRK government has spilled over to include the ROK and Japan as they signed security agreements with the United States. The rejection of foreign powers by the DPRK creates a barrier for any foreign nation who wishes to get involved with unification efforts

The last attempt to unify the peninsula came through force on June 15, 1950 when the DPRK leader, Kim Il-Sung, launched a military assault and advanced into the territory of the ROK, crossing the foreign power's border of the 38th Parallel. This unexpected military movement quickly brought the tension between the two Korean states onto the international scene. The United Nations responded by passing Security

¹⁶ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 45-46.

¹⁷ Bruce Cumings, *Divided Korea: United Future?* (Ithaca, NY: Foreign Policy Association, 1995), 16-17.

¹⁸ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 55.

Council Resolution 82 calling for North Korea to pull its forces north of the 38th Parallel and allowed United Nation countries to assist the ROK in restoring its sovereignty.¹⁹ While each force made advances deep into the other's territory, the conflict ended with an armistice three years later with the original border of the 38th Parallel restored. This conflict set a precedent as the ROK turned towards the international community for assistance while the DPRK went down a path of self-reliance, only relying on help from its communist allies in the USSR and the PRC. While military tensions remain high throughout the peninsula, no additional attempts have been made to unite the peninsula through military force.

E. UNIFICATION SCENARIOS

The presence of foreign powers intervening on the Korean peninsula has created an atmosphere where trust is a rare commodity, even between the two Korean states. This lack of trust is evident in a popular Korean saying following the end of the Second World War, "Do not trust the United States. Do not be deceived by the Soviet Union. Japan will rise again. Be careful Korea."²⁰ The decades of occupation and mistrust by foreign nations makes the peninsula politically different from most areas of the world. To satisfy both Korean nations and continue progress towards unification, the Korean states should present ideas that rebuild a single Korean identity that allows the possibility of a smooth unification to occur.

The path to a single Korean nation remains uncertain, but the three scenarios in this thesis have the best probability of occurring. To review, the first scenario is a complete collapse of the DPRK government followed by absorption by the ROK creating a unified peninsula with a government similar to the present day ROK. This

¹⁹ United Nations Security Council Resolution 82, Session 1501 (June 25, 1950), <http://daccessdds.un.org/doc/RESOLUTION/GEN/NR0/064/95/IMG/NR006495.pdf?OpenElement> (accessed September 8, 2008).

²⁰ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 57.

scenario was popular throughout the late eighties, increased in the early nineties and intensified in the mid nineties after the death of the DPRK's founding father Kim Il-Sung in 1994.

In a 1995 poll of 48 multinational analysts by Lee Young-sun, sixty percent of the analysts believed this scenario would become a reality by the year 2010.²¹ This view was not restricted to academic institution but shared by governmental offices. A 1996 report by the Defense Intelligence Agency of the United States called for a DPRK regime collapse in less than three years while the former Director of Central Intelligence, John Deutch, predicted the DPRK would collapse within the next three years or continue to survive for a significant time into the future. These views were shared by the public who expected a collapse within 10 years while many predicted a collapse would occur in as little as 5 years.²² Markus Noland identifies three groups that have historically emerged after a regime collapse that could block the overarching goal of unification: revolutionaries, political moderates and counter-revolutionaries.²³ The presence of these groups within the DPRK is currently unknown but must be expected to emerge following a collapse. These groups can delay the unification process and the planning of the peninsula's future goals must consider them.

The role of economic engagement throughout the peninsula can create an atmosphere where both Korean states no longer doubt the other's intentions while growing each states economy focusing on their own comparative advantage. The DPRK claims to have the lowest labor cost, lowest taxes, an untapped market, an abundance of qualified labor and the proper legal work for multinational corporations.²⁴ The ROK has a large pool of qualified business managers, access to international markets, a stockpile

²¹ Marcus Noland, *Korea after Kim Jong-Il* (Washington, DC: Institute for International Economics, January 2004), 14.

²² Ibid., 14-15.

²³ Ibid., 45.

²⁴ DPRK Official Webpage, <http://www.korea-dpr.com/business.htm> (accessed February 5, 2009).

of capital and the willingness to rebuild the DPRK's industrial sector. Matching these two different economic capacities together can create situations that are economically beneficial to both states while laying the groundwork for unification.

The second scenario involves a slow opening of the DPRK through a Free Trade Agreement (FTA). A possible FTA may begin with both Korean states and expand to include the PRC, Japan, Russia and the United States. An FTA can allow the DPRK to strengthen its economy while slowly opening its borders to the ideas of foreign nations. Strengthening the DPRK's economy is necessary to provide a relief valve that allows its administration an alternate path for income rather than simply seeking rents. This process may take decades as ideas from outside nations trickle into the borders of the DPRK as its economy grows. The close relationship of the nations involved in the FTA can help guide the future of the Korean peninsula and may evolve from the ties already present in the Six Party Talks.

Woosang Kim sees the importance of the Korean peninsula as the center of the Northeast Asian market. He believes a free trade area can promote economic prosperity while maintaining the United States' influence throughout the area.²⁵ Edward Olsen feels there is a good chance of a free trade zones occurring within Northeast Asia based upon the European Union model on both regional and sub regional levels.²⁶ Marcus Noland expands upon these potential models for increased trade throughout Northeast Asian by citing the North American Free Trade Agreement as a model for the Korean peninsula.²⁷ The failed economic reforms enacted by the DPRK in 2002 demonstrate its inability to grow its economy internally without the help of outside assistance. With the current age of globalization, the DPRK stands to benefit immensely from interacting with the international community as businesses continue to search for new areas to construct

²⁵ G. John Inkenberry and Chung-in Moon, *The United States and Northeast Asia: Debates, Issues, and the New Order* (New York: Rowman and Littlefield Publishers, 2008), 134.

²⁶ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 177.

²⁷ Marcus Noland, *Korea after Kim Jong-Il* (Washington, DC: Institute for International Economics, January 2004), 57.

manufacturing plants with an abundance of local labor. Allowing a state that was once part of a unified Korea inside the borders of the DPRK can be the first step in opening the borders to other nations as it increases the economic output.

While this scenario can build trust between the two Korean states and their neighbors, there is no guarantee that North Korea will abandon its nuclear weapons program or push for unification. The main goal of the FTA would be to close the economic gap between the two Korean states without foreign countries operating within the DPRK borders. The history of the peninsula shows the anxiety that can arise if external nations operate within the DPRK from the fall of the Yi Dynasty to the division enacted following the Second World War and into present day policies.

The downfall of an FTA would involve the number of nations involved and their desired goals of the Korean peninsula. If a large number of nations are involved in the FTA, the DPRK can choose which nations to continue trade while alienating others that may be more willing to push for unification. It places the power to decide who to trade with in the lap of the DPRK as its economy grows and removes the influence of the ROK over future endeavors that can lead to unification. If trade fall apart between nations within a FTA, the potential for future conflict over economic growth increases creating an added layer of hostiles throughout the region.

The final scenario explores the possibility of expanding upon special economic zones within the DPRK. The current success of the Kaesong Industrial Complex (KIC), bringing together the business skills of the ROK and the labor from the DPRK, has already brought a sense of trust to the peninsula which has been absent for over 50 years. While small protests have occurred by both states in response to the other's actions, they have been relatively minor compared to previous disagreements as the complex continues to operate. Similar to an FTA, this scenario will shrink the economic gap between the two states reducing any future cost to unify the peninsula. It also provides the needed relief valve for the DPRK administration to refrain from pursuing a larger nuclear weapons program. The power of trade will rest with the ROK who can influence the DPRK towards milestones that will aid in the future for stability and unification, contrary to the FTA scenario mentioned above.

The influence from the international community will be minimal compared to an FTA allowing the two Korean states to guide the future of Korean peninsula. Getting an agreement on the future of the Korean peninsula is easier with a minimal amount of nations competing for influence. If the ROK businesses maintain their desire to invest in the DPRK, which appears apparent, trust can flourish first through economic interactions and then infiltrate the governments creating the potential for a peaceful unification process.

F. HYPOTHESIS OF THE THESIS

Throughout this paper, I analyze the three unification scenarios for the Korean peninsula using the matrix mentioned earlier, focusing on the need to build trust between the two states through economic interdependence before slowly opening North Korea to influences from outside nations. There is no doubt a reduction in the economic gap is needed prior to any unification attempt. I focus on which of the two economic scenarios would be the best comparing the FTA and SEZ scenarios side by side. The security aspect of the Korean peninsula is a variable that cannot be overlooked when examining the future of the Korean peninsula and will be briefly touched on throughout the examination of each scenario. Through building strong economic ties and a continued diplomatic relationship between the two Korean states, the security threat can be reduced.

The current difference in economic positions will create a rough transition to a single government if unification were to occur tomorrow. The decision by the ROK to become involved in the international economy allowed them to become a top ten economy within one generation after the state's conception. Meanwhile, the DPRK's decision to focus on a self-reliance economy has led to what many scholars have labeled a failing state. If the current difference remains or increases, the ROK, along with the international community, would be devastated by the amount of economic aid required to merge to two states into a single nation in a short time. These costs led ROK officials to rule out its desire for unification through collapse and absorption in 2007.²⁸

²⁸ Anonymous, "South Korean President rules out possibility of unification 'by absorption,'" *Yonhap News Agency*, October 18, 2007.

The obstacles to a unified Korean peninsula are numerous but the five variables in my matrix give a strong indication of which scenario is the most plausible and desirable. While this thesis focuses on economic factors with sub-elements of regional stability and international acceptance, policy makers should also consider factors outside of this thesis, as the potential for unification gets closer. I demonstrate how economic engagement can help create a Korean peninsula under one government, free of nuclear weapons and active in the international community that benefits all nations throughout the region.

G. THE LAYOUT OF THE THESIS

I start this analysis by examining the interactions that have occurred throughout the Korean peninsula, including how the national policies have changed from military confrontations to economic engagements within the past ten years. The foundation set by Kim Dae-Jung's Sunshine Policy has allowed the current ROK President, Lee Myung-bak, to engage the DPRK economically creating additional opportunities in the future. The chapter lays out the theory of economic interdependence while expanding on the problems that may obstruct unification. It concludes with how a unified Korean peninsula may act on the international scene as well as how the regional powers view the possibility of unification.

The next chapter reviews and analyzes each state's economic development and discusses how the historical policies can be exploited to aid unification. The history of the DPRK's development can help explain why the three scenarios are the most accepted and help to determine which can be the most beneficial. It then conducts a review of the ROK's economic development and how it can be used as the cornerstone for change throughout the peninsula. I conclude with how the two states can combine their historical policies to create policies that can lead to a new unified Korean state.

The fourth chapter expands upon the unification scenarios of a DPRK collapse, creating a Free Trade Area and expanding Special Economic Zones throughout the DPRK. Each scenario is reviewed and assigned advantages and disadvantages in order to compare the different paths that can lead to unification. I apply scores to each area of my

matrix for the respective scenario. The chapter includes a brief historical looks of an FTA and SEZ concluding with a head-to-head review of the FTA and SEZs economic scenarios.

I conclude with the scenario I believe will be the best path for the Korean peninsula and the international community. I conduct a review of how SEZ can be applied to the DPRK with a review of the Keasong Industrial Complex and the interdependent relationship that has already emerged between the two states. The chapter concludes with recommendations that can help merge these two different states into a single nation that encompasses aspects of both Koreas.

As previously stated, numerous variables stand in the way of a unified Korean peninsula. Many studies have focused on the security factors including military forces involved in unification but have undervalued the importance of the role of inter-Korean economic engagement. This thesis adds to the material already available to understand the advantages that are available through economic interdependence in regards to advancing the unification process. This thesis is not intended to be a stand-alone document to plan for Korean unification but must be used in conjunction with other sources for variables not covered in this analysis.

II. INTRA-KOREAN AFFAIRS

A. INTRODUCTION

This chapter focuses on background information concerning the Korean peninsula including the slow thaw that occurred since the formation of each state in 1948. I examine the various interactions between the two states and how these interactions have evolved to allow the ROK to engage the DPRK through economic policies. I then focus on why economic engagement can be beneficial to reducing security tensions on the Korean peninsula through the theory of Economic Interdependence. I lay out some potential problems that can obstruct the effort for unification. I briefly view some obstacles that arose during Germany's unification in the early nineties and how they can be applied towards Korea. I add some insight on how a unified Korean nation may appear to the international community and the actions they are likely to take. The chapter concludes with a brief examination of how the surrounding nations may view a unified Korean peninsula.

B. THE SLOW THAW ON THE KOREAN PENINSULA

The unification of the Korean peninsula has been a major issue for every Korean president, both north and south of the 38th Parallel. Syngman Rhee, the first South Korean president, used unification as the foundation for his policies. He believed only through military force would the two Korean state be reunited. A report published in October 1949 stated, "The [Seoul] Government's only proposed solution to the problem of unification is bullets and bayonets."²⁹ The ROK continued to support this policy even after the failed unification attempt through military force launched by the DPRK in 1950. In 1960, President Rhee gave way to a temporary government allowing the rise of General Park Chung-Hee through a non-violent coup in 1961. President Park would be the first to change the policy on unification from military actions to peaceful

²⁹ Stewart Lone and Gavan McCormack, *Korea since 1850* (Melbourne, Australia; New York: Longman Cheshire; St. Martin's Press, 1993), 226, 104.

negotiations.³⁰ However, his policies were more talk than action as he dealt with a staunch regime in the north. Kim Il-Sung ruled the DPRK until his death in 1994 where his son Kim Jong-Il succeeded him. The Kim family continues to rely on a path of military power in the hope of one day unifying the peninsula through force.

Talks for unification have occurred since 1971 when both states used their Red Cross associations as a conduit to unify families separated since the civil war. The initial rounds of negotiations lasted for two years and ended with a DPRK protest over the ROK's desire to enter the United Nation. Talks resumed in 1984 when the DPRK offered assistance to the ROK after the state was devastated by massive floods. This round of talks again lasted for two years and ended as the DPRK protested the combined military exercises between the ROK and the United States. The ROK extended an invitation for talks again in 1988, which has shown a steady stream of "on again, off again" relations between the two Koreas.³¹

Recent history shows the continued thaw in the relationship between these two states. Former ROK presidents' ideas of peaceful negotiations would slowly evolve into President Kim Dae-Jung's "Sunshine Policy" throughout his tenure from 1998-2003.³² This non-violent policy towards North Korea culminated with his historic trip to Pyongyang in June of 2000, where Kim Jong-Il greeted him at the airport. Some South Korean citizens saw the Sunshine Policy as an appeasement to the Kim Jong-Il government in return for a reduction of tension on the peninsula. The keystone of the policy was the development and opening of the Mount Kumgang tourist area by Hyundai, a South Korean company. Hyundai agreed to give North Korea over \$900 million dollars over a span of seven years for the ability to operate the tourist area.³³ While this contract was very profitable for North Korea, it gave little back to the citizens of South Korea.

³⁰ Chung Hee Park, *Toward Peaceful Unification: Selected Speeches* (Seoul, Korea: Kwangmyong Publishing Company, 1976), 81.

³¹ The United States' State Department Official Website on North Korea <http://www.state.gov/r/pa/ei/bgn/2792.htm> (accessed February 9, 2009).

³² Manwoo Lee, "Sunset for Kim Dae-Jung's sunshine policy?" *Current History* 101, no. 101 (April 2002), 166.

³³ *Ibid.*, 167.

While some South Korean families were able to reunite with family living in the north, the number of families was limited. The ROK's current president, Lee Myung-bak, has built upon the "Sunshine Policy" and made economic engagement with North Korea a top priority.

These actions between the DPRK and the ROK have demonstrated a new policy for future endeavors. The last ten years have seen the two states continue to communicate through both the business and governmental sectors. In May 2007, a historical event occurred within the DMZ when two trains traveled along the recently reconnected railroads, one heading north and the other traveling south.³⁴ While it is hard to claim any military confrontation between the two states is gone forever, the two states appear to be moving towards an era focusing on policies that aid in economic development.

C. WHY CHOOSE ECONOMIC ENGAGEMENT?

The theory of economic interdependence has been viewed as a source to reduce conflict between nation states since the creation of the western nation state in the 17th century. The main hypothesis of the theory states nations would choose to forgo conflict when their trade is tightly interconnected. The theory is expanded to describe the variance in cost for each nation to maintain peaceful ties vice mobilizing forces for war. If a high degree of interdependence exists between two nations, they will prefer to maintain their advantages through trade rather than risk the uncertainty that comes with conflict.

The theory of economic interdependence goes beyond the simplistic view that nations will not engage in war when there is high correlation of interactions between two nations concerning their economic production. The theory is reduced down to two schools of thought, one liberal and the other realist. I will first explain the realist

³⁴ Choe Sang-Hun, "North and South send trains across the Korean Frontier," *The New York Times* May 18, 2007.

viewpoint and then proceed into the liberal aspect, the main argument for the spread of economic interdependence and the reason why trade can benefit the Korean peninsula's quest for unification.

The realists, or traditionalists, believe economic interdependence will lead to increased conflicts between nations. These scholars point towards the two World Wars that occurred throughout Europe and the Pacific theater in the first half of the 20th century as the involved nations' economies were tightly intertwined. The potential for the loss of a vital economic component from country A to country B forces country B to invade country A, ensuring their supply chain remains uninterrupted. They also view real power lying in military assets, which are used to end conflicts and secure their economic future.³⁵ Since the two Korean states have broken communication lines with each other numerous times in the past without engaging in a war, I will not focus any further on this aspect of the theory. The desire of each state's largest ally, the United States for the ROK and the PRC for the DPRK, to avoid a conflict on the Korean peninsula that might bring these two powers to war decreases the possibility of conflict.

Data since the end of the Second World War reinforces the liberal theory of economic interdependence and suggests that we may now be in an era where the preferred political stance is swaying towards economic interdependence and away from military action. The liberal aspect of the theory states an increase in economic cooperation will increase peace between two nations, in direct opposition to the realist view. The liberal theorists believe "close economic contacts contribute to peace by making war irrational and useless. Free trade contributes to peace by allowing the flow of goods across national borders for mutual gains, making war more costly and consequently less likely between trading partners."³⁶

Robert Keohane and Joseph Nye expanded upon the theory of economic interdependence by suggesting the formation of a *complex interdependence* between

³⁵ Robert O. Keohane and Joseph S. Nye, "Complex Interdependence and the Role of Force," in *International Politics: Enduring Concepts and Contemporary Issues* (Boston: Longman, 2003), 234.

³⁶ Ming Wan, "Economic Interdependence and Economic Cooperation: Mitigating Conflicting and Transforming Security Order in Asia," in *Asian Security Order: Instrumental and Normative Features* (Palo Alto, California: Stanford University Press, 2003), 290.

nations with high levels of economic trade. This includes the development of various paths for communication and information flowing towards the governmental leaders, while removing the realist idea of a hierarchical international society and eliminating the use of military forces against other nations in the same geographic location.³⁷ These additional variables are necessary to understand as the world continues to evolve and become more globalization. This complex interdependence is believed to make the threat or use of force less likely between nations that maintain these connections through economic trade.

The first aspect of the additional variables, the increased lines of communications, has steadily increased through globalization. As multinational corporations (MNC) continue to grow, nations that were once underdeveloped are now becoming industrialized with the help of companies from other nations. These MNC usually contain a headquarters in an industrialized country while maintaining production factories in a developing country. The MNC's headquarters are usually located outside of the manufacturing nation, where they ensure their nation's policies are beneficial to the manufacturing nation, ensuring economic growth for all involved. This relatively new concept (the last 20 years) has placed these firms inside the decision cycle of various leaders throughout the world.³⁸ This concept is defined by the increase communication between the ROK and the DPRK through the KIC and the South Korean companies that have set up factories in the complex at Kaesong.

The second aspect of the theory deals with the absence of the hierarchical society, which has been a focal point of foreign policy decisions since the treaty of Westphalia. The creation of various international institutions including the United Nations, International Monetary Fund, World Bank and the emergence of the European Union has aided in tearing down the old hierarchical society. While nations still strive to become world superpowers, the disparity between the nations on the next tier has shrunk

³⁷ Robert O. Keohane and Joseph S. Nye, "Complex Interdependence and the Role of Force," in *International Politics: Enduring Concepts and Contemporary Issues* (Boston: Longman, 2003), 236-237.

³⁸ Ibid., 237.

significantly over the past few decades.³⁹ On the Korean peninsula, no hierarchical structure exists; only the desires by both states to one day become a single nation with the potential to become a world leader.

The last variable of *complex interdependence* is the shrinking role of military forces between nations co-located in the same geographic sphere. The fear of attack from neighboring states has drastically decreased with the availability of membership into the international and regional institutions. The cooperation between nations that once were clearly defined enemies reinforces this concept. Examples include Canada removing the fear of an invasion from the United States, Germany and Great Britain no longer fearing the rise of the other and France discarding their once doctrinal policy of defense in every direction. While countries may still engage in conflicts away from their borders, the desire to wage war close to home has diminished.⁴⁰ The threat of military actions remains present on the Korean peninsula but has been steadily decreasing since the enactment of the “Sunshine Policy” and the follow on policy of economic engagement.

Dale Copeland adds the additional variable of future trade to the theory of economic interdependence. He uses the uncertainty of future trade to explain the Second World War that has historically been used to rebuke this theory. Copeland explains that although Germany and Japan both held an advantage in all aspects of realist power prior to the Second World War in their respected region, they only sought to invade after their prospects for future trade had fallen significantly.⁴¹ If their prospects for future trade remained high, both nations would have continue their economic expansion without a fear of their raw materials being restricted by neighboring nations. These nations would have chosen a peaceful coexistence rather than seek war which caused their decline.

This future expectation of trade along with the additional variables presented by Keohane and Nye can help place the significance of using economic engagement to help

³⁹ Robert O. Keohane and Joseph S. Nye, “Complex Interdependence and the Role of Force,” in *International Politics: Enduring Concepts and Contemporary Issues* (Boston: Longman, 2003), 238.

⁴⁰ Ibid., 238-239.

⁴¹ Dale Copeland, “Economic Interdependence and War: A Theory of Trade Expectations,” *International Security* 20, no. 4 (Spring 1996), 6.

unify the Korean peninsula. The multiple channels of communication already present can ensure national decision makers have the required information needed before enacting a policy that may lead to a conflict. The removal of potential military forces against another nation regionally can give leaders the necessary time needed to make a rational decision. While not much is known about the DPRK decision making cycle, we can conclude that giving their state a source of future economic growth can keep communication lines open to defray any potential security concerns.

As with all theories, this one holds some flaws. While it states nations can reduce the security risk between two enemies, the prospect for conflict is always present. It also states nations would choose to pursue policies that place economic growth ahead of security concerns but does not guarantee unification of a divided nation. The theory has been applied to nations that are internationally recognized and developed. The use of the theory against a failed or failing state may bring a different outcome against two states considered developed.

D. PROBLEMS FOR UNIFICATION

The unification of Korea is an end state that many countries desire, however the complexity of the present variables create obstacles that lead some countries to maintain the status quo. Some nations may prefer to keep what they are familiar with rather than force a unification that creates a nation with additional influence and responsibility within the region. Only through years of cooperation with a shared vision for common goals can the two Korean states bring the environment on the peninsula towards an atmosphere that creates a potential unification beneficial to all parties involved.

The economic relations between the ROK and the DPRK are already showing benefits of the economic interdependence theory as interactions are increasing daily while both economies grow, trust is being built, additional lines of communications are installed and the use of military assets are minimized. The PRC and the United States remain strong allies of both Korean states while accepting the new economic ties present

on the peninsula. Outside nations must accept the thaw occurring on the peninsula while withholding from making political moves that may jeopardize the progress made between the two Korean governments.

North Korea's nuclear weapons program continues to be a major obstacle that keeps many nations from encouraging the expansion of economic ties. Its government can enhance and promote trade alliances by eliminating its nuclear weapons program and removing the largest security threat from the peninsula. Eliminating its nuclear weapons program and allowing International Atomic Energy Agency inspection teams to operate within its borders will demonstrate to the international community the DPRK's commitment to conform to U.N. rules and regulations. Recent actions, including increasing its transparency and cooperating with new treaties have assisted in the removal of North Korea from the United States' State Sponsors of Terrorism List, allowing the state access to low interest international loans.⁴²

South Korea continues to make strides to normalize relations with North Korea with a goal of closing the economic disparity between the two states. This goal is a result of Germany's experience as South Korea tries to reduce the cost of unification in the event of a collapse. Although the ROK can use Germany's unification as a template to plan for unification, it will still have to overcome variables that were absent in Germany's unification. Other variables, which are not currently visible due to the closed nature of the DPRK society, must also be anticipated and planned. If the two economies continue their present growth rates, the cost of unification will only slightly decrease. A rapid change in economic reforms must occur within the DPRK, preferably with the help of the ROK, to ensure growth is maintained. South Korean officials have made it clear the importance of continuing inter-Korean economic cooperation as they create a relationship where both states are equal. President Roh stated without overcoming this

⁴² The United States' State Department List of State Sponsors of Terrorism <http://www.state.gov/s/ct/c14151.htm> (accessed February 4, 2009).

economic hurdle, “unification will remain far away.”⁴³ However, as time continues to pass and economic reforms continue to fail within North Korea, the process of unification will continue to be slow and very expensive.

The unification of Germany saw two nations unite from different social, political, ideological and economical paths.⁴⁴ This brought a tremendous shock to the citizens of the two nations as prejudices were still abound in everyday activities, very different from the utopian outlook of one happy German nation.⁴⁵ One must examine this variable when dealing with the two Korean states. Each state continues to believe they are the rightful government of a unified Korean nation.⁴⁶ Currently, the only solution to who would govern the new nation would be a total collapse of the DPRK government followed by absorption by the ROK. Yet, this scenario is the most undesirable by the ROK and the international community.

In a poll conducted in 2001 by North Korean defectors and South Korean college students, the division of the nation remains in the minds of many Korean citizens. While all participants preferred the lifestyle of the ROK, many defectors still associated themselves more with the citizens of North Korea.⁴⁷ Likewise, the South Korean students felt a stronger association with South Korea than the north, while a small percentage remained neutral. A new national image must be created that allows the citizens of Korea to view themselves as a single Korean people, disassociated from the division of the Second World War, as they strive towards an unified nation. Political unification will only take the nation to a certain point before the social division erupts and halts the development of a single Korean nation.

⁴³ Yoo Cheong-mo, “Roh Says Upgrade of N. Korean economy critical to unification,” *Yonhap News Agency* November 16, 2007.

⁴⁴ Do-Yeong Kim and Hye-Jung Oh, “Psychological Aspects of Korean Reunification: Explicit and Implicit National Attitudes and Identity of South Koreans and North Korean Defectors,” *Peace and Conflict: Journal of Peace Psychology* 7, no. 3 (2001), 266.

⁴⁵ *Ibid.*, 267.

⁴⁶ Kang Suk Rhee, “Korea’s Unification: The Applicability of the German Experience,” *Asian Survey* 33, no. 4 (1993), 367

⁴⁷ Do-Yeong Kim and Hye-Jung Oh, “Psychological Aspects of Korean Reunification: Explicit and Implicit National Attitudes and Identity of South Koreans and North Korean Defectors,” *Peace and Conflict: Journal of Peace Psychology* 7, no. 3 (2001), 274-276.

E. HOW A UNIFIED KOREA MAY LOOK

A unified Korean nation has the potential to take on a number of different personas. However, the most likely to emerge is a nation very similar to the modern day ROK, based on a democratic governmental style and an open-market economy. The focus on economic development appears to remain a top priority, as the new nation will strive to balance the living conditions throughout the peninsula. The potential for the new government to retain its nuclear capability remains low as allied nations would push to denuclearize the peninsula and remove the possibility of an arms race throughout the region. The majority of the security concerns after unification will be internal to the nation as it focuses on national development while providing a rule of law. The focus of a unified Korean nation will be managing the migration of citizens to various regions in search of a better life while providing the necessary aid for the health of citizens.⁴⁸ The international disputes currently present will not be resolved, as the new government will wish to maintain the status quo until its internal issues are resolved.

The government can be expected to take a centralist stance as they attempt to please both the United States and the PRC. This includes reframing from taking any actions that may give one ally an indications the other is preferred.⁴⁹ The correct accountability and removal of nuclear weapons appears to be a major milestone for the international community and will aid in restoring peace throughout the region. The economic ties between a unified Korea and the surrounding nations are expected to increase leading to additional security throughout the region as predicted by the theory of economic interdependence. Having a transparent government throughout the unification process will assist in reducing security concerns throughout the region while creating the foundation for future economic cooperation throughout the international community.

⁴⁸ Kang Suk Rhee, "Korea's Unification: The Applicability of the German Experience," *Asian Survey* 33, no. 4 (1993), 367.

⁴⁹ Derek J. Mitchell, "A Blueprint for U.S. Policy toward a Unified Korea," *The Washington Quarterly* 26, no. 1 (Winter 2002-03), 127.

F. HOW THE INTERNATIONAL COMMUNITY VIEWS KOREAN UNIFICATION

For this assessment, I will assume that a Unified Korean peninsula emerged through a peaceful process centered on a strong economic policy that increased the DPRK's economy to a manageable level. While some of the analysis draws from the hypothesis state above, I will assume that no large changes have been made throughout the international community with the nations of the six-party talks as regional players. The United States will maintain its status as the world hegemonic power with the PRC continuing to see its influence throughout the region rise. The Russian Federation continues its current level of activity in regional affairs but to a lesser extent than the United States, China or Japan. Nuclear weapons and the facilities associated with manufacturing the materials necessary have been dismantled and the nation is open to inspections from U.N. monitoring teams. The following assessments will be from the viewpoint of each nation, as each nation's acceptance of a Unified Korea will help shape the future of the region.

1. United Nations

The United Nations has an interesting view of the Korean unification problem as the two nations, the United States and Russia, which divided the peninsula are permanent members of the UN Security Council and possess the power to veto legislature. To complicate the issue, China also holds a seat as a permanent member of the council and with its veto power.⁵⁰ The number of regional nations with veto power hastens the ability of the United Nations to agree on a policy that enables a unified Korean peninsula favorable to all parties to emerge.

China and Russia have traditionally been against any hard sanctions suggested by the United States in regards to the DPRK that may accelerate a collapse of its government.⁵¹ Yet, all parties profess to believe that the Korean peninsula should be free

⁵⁰ United Nations Security Council Members website <http://www.un.org/sc/members.asp> (accessed January 6, 2009).

⁵¹ Anonymous, "United States Supports UN Sanctions, Vigorous Enforcement following North Korean Missile and Nuclear Tests," *The American Journal of International Law* 101, no. 1 (January 2007), 218.

of nuclear weapons. The passing of UNSC Resolution 1695 on 15 July 2006, immediately following missile tests conducted by the DPRK, shows the institution's commitment to ensure peace and stability throughout the region. The resolution required all member states to ensure no missiles or missile related technology was allowed to flow into the borders of the DPRK as well as the purchase of any missile already present within the DPRK.⁵² The United Nations had success in passing additional security legislature concerning the Korean peninsula, yet have taken no further actions towards the two states for reunification.

2. The United States of America

The United States wishes to maintain its current level of influence with the ROK over a unified Korean peninsula. This can be achieved by continued military interactions including regularly scheduled deployments and training missions with the new nation's military. This would ensure the commitment of the United States' military forces to the safety of the new nation after the removal of the threat of a second civil war. Continuing its military presence will keep the Korean peninsula under the nuclear umbrella of the United States', allowing a unified Korea to remove its nuclear arsenal and stop additional research into its program. Having the new nation fall under the United States military umbrella will thwart the potential of a new arms race in the region.⁵³

If the United States wishes to maintain its current influence over the region, it can use the newly unified Korea to balance against the rising power of the PRC. While there is no guarantee a unified Korea would favor the United States over that of China, the absorption of the old DPRK government into the ROK structure gives the

⁵² UNSC Resolution 1695 passed on 15 July 2006 at the 5490th meeting of the council, <http://daccessdds.un.org/doc/UNDOC/GEN/N06/431/64/PDF/N0643164.pdf?OpenElement> (accessed February 4, 2009).

⁵³ Derek J. Mitchell, "A Blueprint for U.S. Policy toward a Unified Korea," *The Washington Quarterly* 6, no. 1 (Winter 2002-03), 132.

United States a slight advantage in alliance structure. Revamping the current bilateral agreement between the ROK and the United States to include the new Korea nation with the potential to create a trilateral alliance with Japan should be pursued.⁵⁴

A strong alliance between the United States, Japan and a unified Korean nation can create a force that can shape the future of the region. The three nations, along with Taiwan, can form a force that can compete with a powerful Chinese nation while keeping Russia from gaining further influence throughout the region.⁵⁵ To ensure a successful alliance, all parties involved must accept apologies for past atrocities while focusing on a common set of goals for the future, both economically and militarily.

3. Japan

Japan has sectors that would welcome the thought of a unified Korean nation that shares the same ideas and goals of its current alliance with the United States and those that fear the creation of a unified Korea. The ability to have another nation play a major role in shaping the region will alleviate a large financial burden currently held by the Japanese government. These costs include conducting joint security exercises and the creation of a missile defense system under development for the region.⁵⁶ A Korean nation that can take on a larger role within the region will allow Japan to focus on more national projects. Economic growth for both nations has helped these nations place differences aside and cooperate on joint ventures similar to the normalization of relations in 1965 and the future economic opportunities may help the relationship of these nations flourish.

However, Japan and both Korean states have been unable to compromise on past actions and policies. The Japanese people were outraged when Kim Jong-Il announced the kidnappings of Japanese citizens in September 2002. This announcement turned

⁵⁴ Kent E. Calder, "U.S. Foreign Policy in Northeast Asia," in *The International Relations of Northeast Asia* (Lanham, Maryland: The Rowman and Littlefield Publishers, Inc., 2004), 240.

⁵⁵ Tomotsu Nakano, "A Grand Design for Northeast Asia," *International Journal on World Peace* 20, no. 3 (September 2003), 43.

⁵⁶ Derek J. Mitchell, "A Blueprint for U.S. Policy toward a Unified Korea," *The Washington Quarterly* 26, no. 1 (Winter 2002-03), 128.

many Japanese citizens away from the possibility of working with the DPRK or encouraging a Korean unification.⁵⁷ Japan and the ROK are still in a dispute over the Lincourt Rocks, called Dokdo in Korean and Takashima in Japanese, located between the two nations since 1952.⁵⁸ Currently, no settlement beneficial to both parties has evolved over the sovereignty of this territory. These historical disputes along with the past actions of all involved states may lead Japan to maintain the status quo.⁵⁹

4. The People's Republic of China

The PRC, similarly to Japan, has the potential for both gains and losses from a unified Korean nation. China has been working both economically and politically with the ROK since the early nineties. This relationship is expected to continue as the PRC gains additional influence over the peninsula after unification occurs. The prospective of moving the pendulum of power away from the United States and towards the PRC stands at about fifty percent.⁶⁰ Many experts believe China has been a large influence in political matters on the peninsula including getting the leaders of both Korean states together in 2000. They also were instrumental in getting the United States and the DPRK together for negotiations in Beijing in April of 2002 after an increase in nuclear tensions.⁶¹

Currently, the PRC is pushing to reduce the amount of United State military bases throughout the region, specifically on the Korean peninsula. If the cold war threat of a second Korean conflict dissolved, as well as Korea's nuclear arsenal, the PRC could lobby the new Korean government to remove the United States military footprint from

⁵⁷ Kent E. Calder, "U.S. Foreign Policy in Northeast Asia," in *The International Relations of Northeast Asia* (Lanham, Maryland: The Rowman and Littlefield Publishers, Inc., 2004), 231.

⁵⁸ Serita Kentaro, "The Takeshima Dispute: A Radical Proposal," *Japan Echo* (February 2007), 33.

⁵⁹ Jounghwon Alexander Kim and Myungshin Hong, "The Koreas, Unification, and the Great Powers," *Current History* 105, no. 690 (April 2006), 188.

⁶⁰ Derek J. Mitchell, "A Blueprint for U.S. Policy toward a Unified Korea," *The Washington Quarterly* 26, no. 1 (Winter 2002-03), 128.

⁶¹ Niklas Swanstrom and Mikael Weissmann, "Chinese Influence on the DPRK Negotiations," *Peace Review*, 16, no. 2 (June 2004), 223.

the peninsula altogether, increasing its own security.⁶² The United States has already begun to downsize its forces throughout the ROK, including removing United States' nuclear weapons in the early nineties.⁶³

The strong influence of the PRC was visible when the government of the DPRK unilaterally announced a special administrative zone to be constructed on the border town of Sinuiju in 2002, governed by a Chinese executive named Yang Bing.⁶⁴ The desire of Chinese businesses to gamble on an unstable business opportunity with the potential for high returns shows the potential the DPRK has for future economic growth. The downfall of the zone occurred when Chinese authorities arrested Yang Bing in China for tax evasion. Many see his arrest as a diplomatic gesture to the Kim Regime not to pull resources from China without alerting China's government.

Conversely, the bustling growth of the PRC made investment into mainland China desirable for many ROK businesses. In 2004, the PRC overtook the United States as the most advantageous location for ROK business investments.⁶⁵ One can expect the PRC to reciprocate and invest into a unified Korea when the economic atmosphere becomes more stable in the northern region than it currently is. This can aid in rebuilding the former DPRK with the potential for a high business return.

The relationship between the ROK and the PRC continues to flourish. There has been an increase in tourism between the two nations and we can expect these interactions to increase after unification. In 2001, the PRC replaced the United States as the most traveled destination by ROK citizens for personnel travel.⁶⁶ Coinciding with an increase

⁶² Kent E. Calder, "U.S. Foreign Policy in Northeast Asia," in *The International Relations of Northeast Asia* (Lanham, Maryland: The Rowman and Littlefield Publishers, Inc., 2004), 229.

⁶³ Larry A. Niksch, "North Korea's Nuclear Weapons Program," *Congressional Research Service*, Order Code IB91141 (August 27, 2003), CRS 9.

⁶⁴ Bradley K. Martin and Allen T. Cheng, "Chinese see business openings in North Korea; Hope after deal to end nuclear program," *The International Herald Tribune*, March 6, 2007.

⁶⁵ Jae Ho Chung, *Between Ally and Partner: Korea-China Relations and the United States* (New York: Columbia University Press, 2007), 81.

⁶⁶ *Ibid.*, 17.

in tourism, inter-military exercises have been occurring between these two nations. Naval vessels from the PRC and the ROK began to make port visits in different cities in each country strengthening their relationship.

These interactions increase the PRC's soft power as citizens from each nation continue to learn about the other's cultures. The Chinese language of Mandarin is now taught at over 160,000 high schools and universities throughout South Korea. Furthermore, over 13,000 South Korean students are now studying abroad in the PRC each year.⁶⁷ These educational exchanges can help ease interactions on business and military platforms while creating additional educational facilities in both nations when unification occurs.

However, the PRC may lose some influence as the new Korean government may wish to be viewed as an equal with its regional neighbors. Historically, the Korean peninsula has been subservient to the Chinese nation. This will remove the current level of influence the PRC currently maintains over the northern half of the peninsula. The worst outcome for the PRC will be a unified Korean peninsula that solidifies its alliance with the United States and Japan to balance against the growing power and threat that has been accumulating throughout China. Some PRC officials see North Korea as a buffer state to keep United States forces from its border while still enjoying the economic trade with the ROK.⁶⁸ Yet, it is still unseen which nation a unified Korean will favor, if indeed they prefer one country at all.

5. The Russian Federation

Russia has the most to gain from a unified Korean peninsula. Since the Second World War, they had tremendous influence over the Kim family's rule of the DPRK until the USSR collapsed in the early nineties. Its position on both the UN Security Council and the Six-Party Talks demonstrate its desire to help shape the future of the peninsula. Russia continues to be a supplier of energy for the DPRK and would benefit from a

⁶⁷ Joshua Kurlantzick, *Charm Offensive: How China's Soft Power is Transforming the World* (New Haven, New Haven, Connecticut: Yale University, 2007), 117.

⁶⁸ Nicholas Eberstadt, "Hastening Korean Reunification," *Foreign Affairs* 76, no. 2 (March/April 1997), 79.

unified Korean peninsula where it can send fuel through the former DPRK to the industrial areas located in the southern half of the peninsula.

Additional economic expansion on the Korean peninsula will cause the demand for energy to increase, which Russia wishes to supply from its fields in Siberia. The ROK already wishes to decrease its reliance on the Middle East for its energy needs and has a neighboring country with a large supply.⁶⁹ We can expect Russia to encourage cooperation between the DPRK and other members of the Six-Party talks while slowly apply reforms, which can lead to a unified Korean nation.⁷⁰

G. CONCLUSION

The slow thaw on the Korean peninsula brings hope that the two Korean states may focus on common goals and one day to become a single nation. The recent engagement by South Korea towards the DPRK shows a potential for the establishment of trust between the two states that can lead to a set of common goals. Choosing an engagement strategy that connects the two economies can lead to peace and continued cooperation as seen in the economic interdependence theory.

The powerful neighbors of the Korean peninsula all wish to seek a stable Korean peninsula. The ability of these nations to come together through the Six-Party Talks has created an environment that can lead to additional cooperation for the future of the Korean peninsula. While this venue focuses on the DPRK nuclear problems, it can transform into a working group that removes the additional obstacles standing in the way of a unified Korean peninsula. The role of Korea's neighbors will be instrumental in assisting with the removal of the major issues blocking unification but a template should be drafted that will address their interests jointly.

The lack of a center of gravity that can be removed to ensure unification occurs makes any study a smaller piece of the larger puzzle. The change in leadership that

⁶⁹ Kent E. Calder, "U.S. Foreign Policy in Northeast Asia," in *The International Relations of Northeast Asia* (Lanham, Maryland: The Rowman and Littlefield Publishers, Inc., 2004), 228.

⁷⁰ Joungwon Alexander Kim and Myungshin Hong, "The Koreas, Unification, and the Great Powers," *Current History* 105, no. 690 (April 2006), 189.

outside nations incur has the ability to influence policy in the region while a single action by either of the Korean states makes foreign policy a sensitive issue. Any government who wishes to get involved in the unification process must ensure its actions take the policies of surrounding nations into effect. All regional players must give some accessions while cooperating with formal foes to ensure they maintain their strategic goals of a peaceful unification while allowing the Korean people to shape its destiny. The one aspect that all outside nations agrees on is a unification of the Korean peninsula should be long and slow, to decrease the amount of aid that is required as well as slowly introducing the citizens of the DPRK to different ideas and policies.

III. ONE PENINSULA – TWO ECONOMIC PATHS

A. INTRODUCTION

The Korean peninsula may possess citizens that were once from the same historical background but each state has chosen polar opposite economic paths. The DPRK's choice was a socialist model based on the Soviet's design to excel under the heavy supervision of the national government. When the state was created on September 9, 1948, it held many economic advantages over the ROK, left in place by the Japanese colonization including a heavy industry infrastructure with an abundance of natural resources.⁷¹ The basic model of development has not significantly altered since its creation, although the central government has attempted various reforms.

The ROK chose a capitalist model with guidance from United States' advisors to shape its early economic foundation. Despite the lack of economic knowledge within the ROK's national government, the United States sent large amounts of financial aid and technology into the ROK in an attempt to keep the peninsula from falling under a socialist cloud. Many scholars credit the prevention of a ROK internal collapse with the commitment shown by the United States early in the state's development.⁷²

This chapter focuses on the paths that each state chose and how each state's policies can aid or hinder future unification. I first focus on the DPRK who choose a path of self-reliance. I then focus on the ROK and its decision to accept aid from the international community and connect to the world markets. The ROK also put aside past difference with Japan in return for an increase in economic growth in the sixties that allowed the ROK to reach the status of the world's 13th largest economy within the span of one generation.⁷³ When examining the development of the ROK, I analyze the interdependence developed between Japan and the ROK and how it helped to stimulate

⁷¹ Edward A. Olsen, *Korea, The Divided Nation* (Westport, Connecticut: Praeger Security International, 2005), 71.

⁷² Ibid., 79.

⁷³ Based upon World Bank Data when comparing GDP for 2007 <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf> (accessed December 15, 2008).

the ROK's economy. This chapter concludes with how a similar path of the ROK can be followed by the DPRK using historical policies that can assist in leading to the possibility of a unified nation.

B. THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

When observing the statistics originating from the DPRK, one must understand the government has an incentive to produce artificial numbers and statistics to demonstrate its economic policies are effective. Markus Noland, an expert in Korean economics, compares the experience of viewing the DPRK's economy to entering "Alice's Wonderland" as many policies and their subsequent outcomes are contrary to western thought.⁷⁴ To analyze the economy of the DPRK, Cold War data will be pulled from an official publication originating within the DPRK while more contemporary data will be taken from the ROK's Ministry of Unification.

The basis of the DPRK economy stems from its philosophy of Jueche, which stresses the importance of a state to be self-sufficient without relaying on inputs from the outside world.

In order to materialize its political Chajusong, a country should work out all its lines and policies independently in keeping with the actual conditions, and carry them out by itself. This requires its own economic strength

As the Korean saying goes, "To borrow is to go into slavery," a country economically subordinated to another will be controlled by the latter politically as well and will have no choice but to do its bidding.⁷⁵

This statement appears to take into account the history of the Korean peninsula dating back to the Yi dynasty and the foreign nations that influenced it until present day. Jueche also reveals the distrust between the leadership of the DPRK and the international community, which remains a hurdle for future unification and outside assistance.

⁷⁴ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 199.

⁷⁵ Hong Sung Un, *Economic Development in the Democratic People's Republic of Korea* (Pyongyang, Korea, 1990), 6.

The government of the DPRK however caveats the Jueche philosophy by expressing the impracticality of completely shunning the outside world. The government believes it is acceptable to rely on the international community for goods that may be too costly to produce internally, as long as these imports remain minimal. The acceptability to go outside its borders expands beyond simple goods but includes technology limited to nations with a shared culture or historical alliance.⁷⁶

The Jueche philosophy has been transformed from an economic policy to a quasi-religion, encompassing a majority of the North Korean population. While it may appear to be a roadblock for any unification attempts, it can also be utilized by the ROK to engage the DPRK solely on an intra-Korean basis. The Jueche philosophy can assist in keeping outside nations out of unification negotiations as the two Korean states attempt to create policies that are beneficial to each state. It gives the ROK a large advantage to help set goals that are beneficial to the Korean states without the input of foreign nations while focusing on the final goal of unification.

The economy of the DPRK has attempted to reform on its own since it set out on a socialist path in 1948, normally coming from the ruling elite, particularly the Kim family. The top down authorization allows the government to maintain control over the reforms enabling the ruling elite to remain in its position of power. The destruction of the Korean War led to a series of “X” Year Economic Plans focused on rebuilding different sectors of its economy backed by the central government.⁷⁷ These top down reforms can be utilized to set the stage for future unification. As common goals are established and promulgated to the North Korean society, the central government can ensure proper oversight on the completion of these projects.

The first reforms occurred in the agricultural sector and completed by 1958.⁷⁸ Using a form of education by observation, the government was able to create a bustling sector within a relatively short period. The same form of education by observation can

⁷⁶ Hong Sung Un, *Economic Development in the Democratic People's Republic of Korea* (Pyongyang, Korea, 1990), 10-11.

⁷⁷ Ibid., 20.

⁷⁸ Ibid., 31.

help propel the people of North Korea to learn new principles through all facets of its economy. The ROK should understand the potential associated with this principle as it introduces new managerial tools throughout the North Korean economy.

After the agricultural sector was stable, the nation's focus shifted to its industrial sector with another plan to begin in 1957.⁷⁹ The destruction caused by the Korean War allowed immense growth to occur as the nation replaced the destroyed infrastructure with modern factories and mills. The DPRK workers were able to accomplish this plan within three years and created an annual growth rate of 36.6 percent. This allowed the country to build numerous small and medium sized factories while creating urbanized areas.⁸⁰

The next seven-year economic plan, scheduled from 1961-1967, brought an increase in distrust between the DPRK and the international community. Realizing the completion of the plan would not occur on time, the government added a three-year extension to the plan. The failure to meet the goal of the 1967 end date was placed on the international community, specifically the United States and its actions in the Cuban Missile Crisis and its military entry into the Vietnam conflict.⁸¹ This blame would continue throughout present day creating a sensitive situation on the peninsula whenever United States' forces are involved, either militarily or politically.

During this plan, the DPRK ceased to publish official data that would allow outside observers to understand its development. The focus shifted from industrial and infrastructure projects to building the military. The DPRK did published data for its military expenditures including doubling the previous spending between the years of

⁷⁹ Nicholas Eberstadt, "Material Progress in Korea since partition," in *The Wealth of Nations in the Twentieth Century* (Stanford, California: Hoover Institution Press, 1996), 139.

⁸⁰ Hong Sung Un, *Economic Development in the Democratic People's Republic of Korea* (Pyongyang, Korea, 1990), 22-23.

⁸¹ Ibid., 26.

1966 and 1967 while tripling the amount between 1967 and 1971.⁸² Throughout the seventies, the DPRK debt continued to increase which eventually lead the regime to default on numerous loans taken from the international community.⁸³

The final seven-year plan was meant to last between 1987 and 1993 in which the state hoped to modernize its economy and realize the goal of self-reliance under the Juche philosophy. Plans were put forth to increase key industries including the domestic power supply, allowing the nation to develop without relying heavily on foreign oil. The plan included the completion of a hydroelectric power station, thermal power plants and a large nuclear power facility.⁸⁴

While this seven-year plan resulted in a low average GDP growth of 2.88% until 1989, the fall of the Soviet Union stopped all progress on this plan. The removal of assistance from the Soviet Union forced the DPRK's economy to shrink by an average of 4.35% through the last four years of the plan. The DPRK was never able to rebound from this seven-year plan, as its economy would continue to shrink at an average rate of 3.44% over the next six years.⁸⁵ With no guidance on how to kick-start the economy, Kim Il-Sung looked towards his military to once again energize the economy and began to focus on the development of nuclear weapons.⁸⁶

The DPRK's decision to pursue nuclear weapons increased military tensions throughout the international community including how to handle the notion of a nuclear-armed DPRK. The United States took the lead and reached a bilateral agreement with the DPRK on October 21, 1994, titled the Agreed Framework Treaty. The design of the treaty served as a roadmap that both nations could pursue including North Korea halting

⁸² Nicholas Eberstadt, "Material Progress in Korea since partition," in *The Wealth of Nations in the Twentieth Century* (Stanford, California: Hoover Institution Press, 1996), 140.

⁸³ Kyung-Yeon Kim, "Assessing the economic performance of North Korea, 1954-1989: Estimates and growth accounting analysis," *Journal of Comparative Economics* 35, no. 3 (2007), 569.

⁸⁴ Hong Sung Un, *Economic Development in the Democratic People's Republic of Korea* (Pyongyang, Korea, 1990), 60-61.

⁸⁵ Dick K. Nanto and Emma Chanlett-Avery, "The North Korean Economy: Overview and Policy Analysis," *Congressional Research Service*, Order Code RL32493 (updated April 18, 2007), CRS-5.

⁸⁶ Some debate occurs over when the DPRK started their quest for nuclear weapons. Some reports date the 1960's but their program became apparent on the world stage in the early nineties.

its nuclear weapons program in return for an increase in aid. The treaty focused on the construction of light water reactors within the DPRK, providing an alternative nuclear energy source without the fear of its material being transformed into military weapons.⁸⁷ While the LWRs were under construction, an international organization would oversee heavy fuel oil shipments to North Korea providing immediate energy relief while ensuring there was no need to restart the nuclear program. A major violation of this treaty occurred in October 2002 when DPRK officials revealed to a United States diplomat that North Korea held a secret uranium program to develop additional nuclear weapons.⁸⁸

C. REVIEW OF NORTH KOREA'S ECONOMIC SECTORS

A report released in 1993 suggested the labor force is still equally divided among the agricultural, industrial and service sectors within North Korea.⁸⁹ However, judging from the absence of the military, we can conclude that this report is not complete. The military is believed to have grown significantly throughout the history of the DPRK with over a million people in uniform and comprising roughly 25-30% of its GDP.⁹⁰ If the economic sectors are still divided equally, simple reforms in each sector provided by the ROK can aid in establishing growth while building trust on the peninsula.

The primary issue appears to be the DPRK's agricultural cooperative farms. While there is an abundance of labor of this sector, without proper oversight and goals for reforms, North Korea may never be able to see the significant increase in crop production needed to provide the basic needs for its citizens. New techniques and equipment brought through the ROK, without violating the philosophy of Juche, can bridge the gap needed to provide the DPRK with the necessary means to provide an adequate food

⁸⁷ Agreed Framework Treaty of 1994, Geneva October 21, 1994, between the United States of America and The Democratic People's Republic of Korea.

⁸⁸ Stephen Hagard and Marcus Noland, "North Korean in 2007: Shuffling in from the Cold," *Asia Survey* 48, no 1 (2008), 107-108.

⁸⁹ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 192.

⁹⁰ Charles Wolf Jr. and Kamil Akramov, *North Korean Paradoxes: Circumstances, Costs and Consequences of Korean Unification* (Santa Monica, Calif: RAND Corp., 2005), 13.

supply. An increase in production through South Korean ideas and products will open the door for the average North Korean citizens to understand the potential rewards of receiving new ideas and equipment into the state.

The industrial sector is primarily focused on light industry and factories that produce materials for the military. The lack of an export market, including working within restrictions placed on its goods through embargoes established by the United States and upheld by allies, makes the expansion of this industry unlikely without any external assistance. Its historical ties with the PRC allow them to hold a small export market across its northern border at the expense of running a high trade deficit.⁹¹

The lack of modern technology compounded with a dwindling supply of repair parts has forced the stagnation of this sector that operates at 30% capacity.⁹² The lack of incentives for creative thinking by factory managers has created an atmosphere where maintaining the status quo becomes the goal. This creates an opening for the ROK to engage the DPRK economically spurring new growth that is beneficial to both states. Increased trade throughout the peninsula will add an additional market for DPRK goods while additional capital flows towards the north.

Encompassing over 1 million citizens in active service, the military appears to be the cornerstone of the DPRK's economic production. The sheer size of the military creates a potential obstacle for a future unification. If the two Korean states merge removing the security threat, the military will be downsized increasing unemployment throughout the northern area of the peninsula. A slow demobilization of the military over time can be one goal of the two Korean states allowing ex-military leaders to join the business sector as it expands as the economy grows with the assistance of the ROK.

⁹¹ Dick K. Nanto and Emma Chanlett-Avery, "The North Korean Economy: Overview and Policy Analysis," *Congressional Research Service*, Order Code RL32493 (updated April 18, 2007), CRS-14.

⁹² Ibid., CRS-8.

Another goal can be to form a civil engineering corps from military units. This new corps can assist in expanding its infrastructure, as more areas are required as the industrial needs expand.⁹³

The government sector accounts for roughly 90% of the national income. Using a “rent-seeking” strategy, the government brings in funding through the international community in return for cooperating with international norms and laws.⁹⁴ Illegal activities, including counterfeiting money, drug trafficking and sales of weaponry are major contributors to the North Korean economy. Estimates show North Korea receives between \$15 and \$20 million annually through the counterfeiting of foreign currency. Its illegal drug trafficking is believed to render between \$500 million to \$1 billion annually. These activities will hinder unification if they continue while the ROK engages the DPRK economically leading to an increase in revenue. The transparency and removal of these programs needs to occur before an atmosphere of trust emerges on the peninsula and the international community.⁹⁵

The development of nuclear weapons severely reduced the regions stability and any hope for unification. A single shipment of military equipment, both nuclear and conventional, can bring in millions of dollars to the DPRK.⁹⁶ North Korea has been exploiting this fear to gather additional aid from its neighbors while strengthening the ability of the current leadership to retain its power.⁹⁷ Without an alternative to this lucrative program, the DPRK will continue to strive for a large arsenal while continuing to smuggle materials to other nations. The leverage that can be applied by the ROK once economic interdependence is achieved can help remove this program from the peninsula while providing an alternate source of income for the DPRK.

⁹³ Charles Wolf Jr and Kamil Akramov, *North Korean Paradoxes: Circumstances, Costs and Consequences of Korean Unification* (Santa Monica, Calif: RAND Corp., 2005), 54.

⁹⁴ Ibid., 14.

⁹⁵ Jounghwon Alexander Kim and Myungshin Hong, “The Koreas, Unification, and the Great Powers,” *Current History* 105, no. 690 (April 2006), 187.

⁹⁶ Dick K. Nanto and Emma Chanlett-Avery, “The North Korean Economy: Overview and Policy Analysis,” *Congressional Research Service*, Order Code RL32493 (updated April 18, 2007), CRS-22-23.

⁹⁷ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 196.

The ROK can force the DPRK to continue down a path of cooperation while still within its ideology of Juche making assistance from other nations undesirable. The ROK can halt additional investments and construction until the leadership of the DPRK takes specific measures to restrict its ability to increase the instability on the Korean peninsula. The measures can go beyond security and be laden with benchmarks and measures that assist in the long-term goal of unification. The DPRK will be more dependent upon the ROK as the relationship continues to evolve. Historically, the PRC or Russia has held similar power, but its ability to control the DPRK's will contract as the ROK establishes a normalized relationship providing the needed materials to modernize the DPRK's economy.

D. ECONOMIC REFORMS

The DPRK constitution of 1998 laid the path for eventual economic reforms. This document brought drastic shifts into the DPRK including viewing technical advances as the foundation for economic development while still maintaining the Juche ideology. However, the constitution allowed the state to develop trading partners from the international community with a mutual respect for both parties, contrary to its history of only trading with nations that shared a common culture or ideology. Article 37 specifically states the potential to develop institutions that are beneficial to both parties through SEZs.⁹⁸

Historically, the driving force behind increasing the North Korean economy was to increase the inputs to garner a larger output. The lack of inputs throughout the eighties led to a decade of stagnation coupled with the fall of the USSR and a decade of economic decline in the nineties.⁹⁹ The current economic conditions within North Korea keep the state from providing the basic needs for its citizens without the access to

⁹⁸ The DPRK Socialist Constitution of 1998 http://www.novexc.com/dprk_constitution_98.html (accessed on February 5, 2009).

⁹⁹ Nicholas Eberstadt, "Material Progress in Korea since partition," in *The Wealth of Nations in the Twentieth Century* (Stanford, California: Hoover Institution Press, 1996), 131.

additional aid.¹⁰⁰ Without an ally that was able to increase the inputs to its economy, the state tried to establish growth through new ideas and reforms.

The economic reforms implemented in July 2002 demonstrate the desire of the DPRK to change its current way of running its economy. These reforms incorporated all aspects of the North Korean economy including creating special economic zones while continuing to seek rents from the international community.¹⁰¹ These policies, implemented without the help of foreign nations, were a final attempt to increase production while slowly reshaping the Juche philosophy. Many policies enacted had capitalistic undertones, the same ideology which DPRK leaders have been against since the creation of the state. The change in policy brings hope that, with assistance from the ROK, the DPRK can connect to the world economy creating a similar economy to the counterparts in the south.

A major change in microeconomic policy allowed farmers and factories to keep excess products after meeting the governmental quota and selling these goods on an open market in the state. This allowed the government to remove the state sponsored subsidies and allowed new markets to set the price of goods. While this initially caused a momentary increase in production, it also allowed inflation rates to increase. Without allowing private business to break free from the state led development model incorporating a complete reform, future problems would soon arise.

The government also backed wage increases for a small portion of occupations throughout the state while others professions kept their original salaries.¹⁰² This caused a chain reaction throughout the DPRK as the overall price of commodities increased faster than the average wage. The price of fuel increased 40 times, electricity 60 times and rice

¹⁰⁰ Kyung-Yeon Kim, "Assessing the economic performance of North Korea, 1954-1989: Estimates and growth accounting analysis," *Journal of Comparative Economics* 35, no. 3 (2007), 565.

¹⁰¹ Marcus Noland, *Korea after Kim Jong-Il* (Washington, DC: Institute for International Economics, January 2004), 46.

¹⁰² *Ibid.*, 46-47.

over 400 times.¹⁰³ Rather than creating a better standard of living, as expected by the government, this policy pushed the standard of living down, as citizens had to pay more for necessary everyday products.

A second reform taken by the DPRK was the re-establishment of Special Economic Zones (SEZs). In a move to emulate the SEZs of China during the late 1970's and early 1980's, the DPRK established a SEZ in Rajin-Sobong in the northeast region of the state in 1991.¹⁰⁴ The decision of the isolated region of Rajin-Sobong was designed to keep the bulk of its citizens away from any idea resembling capitalism while benefiting from an increase in production. However, the isolated location, lack of incentives for foreign investment and the poor infrastructure would be the Achilles heel as bringing materials and workers into the zone was more difficult than expected leading to its failure.

Learning from this mistake, a new SEZ was scheduled for construction under the 2002 reforms on the Chinese border town of Sinuiju with help from foreign businessmen. It was meant to run as a Special Administration Zone (SAZ) which could operate outside of the government's jurisdiction and pursue principles that may be in violation of the Juche mentality, including privatizing factories and using the United States dollar as the primary currency.¹⁰⁵ Many Chinese businesses began to invest in the project seeing an opportunity for high returns from a minimal investment. However, the zone never came to fruition as Chinese authorities under the violation of "fraud and illegal land use" arrested the prospective governor, Chinese executive Yang Bing, after the announcement of his position.¹⁰⁶ The reason for the arrest may have come from the failure of the DPRK to notify the PRC about the establishment of the zone that started to pull resources from the PRC.

¹⁰³ Karpal Sandhu, "A Doomed Reform: North Korea flirts with the Free Market," *Harvard International Review* 25, no. 1 (Spring 2005), 36.

¹⁰⁴ Marcus Noland, *Korea after Kim Jong-Il* (Washington, DC: Institute for International Economics, January 2004), 54.

¹⁰⁵ Karpal Sandhu, "A Doomed Reform: North Korea flirts with the Free Market," *Harvard International Review* 25, no. 1(Spring 2005), 37.

¹⁰⁶ Bradley K. Martin and Allen T. Cheng, "Chinese see business openings in North Korea; Hope after deal to end nuclear program," *The International Herald Tribune* March 6, 2007.

Following these failed reforms and the resultant shrinking economy, the DPRK's focus reverted back to its nuclear weapon program. Its policy to pursue nuclear weapons sparked a reaction from the region to organize the six-party talks, which continue to be a source of negotiations between all regional players. The desire to reform its economy internally with minimal results demonstrates a change within the DPRK that has been absent for most of its existence. The desire to attempt SEZs and create reforms within its borders has opened the door for the engagement that would later come by the ROK. Engaging with outside nations, first through the ROK with the potential to accept additional outside assistance creates a situation that can bridge the gap between the two Korean economies.

The tremendous growth seen following the Korean War through the sixties shows the potential for North Korea to create a bustling economy. The evolution of the socialist ideology is seen as they attempted to implement capitalist reforms and open SEZs within its borders give an indication of accepting a new way forward that can be achieved with the help of the ROK. The continued interactions between the two Korean states show the acceptance of the DPRK to accept international ideas as it transforms its state.

E. REPUBLIC OF KOREA

The Republic of Korea's approach to economic development could not have been successful without the aid it received by the international community. The development of the businessmen, bureaucrats and other modern day professionals occurred during the Japanese occupation and created a pool of talent that would guide the economic development of the country.¹⁰⁷ The alliance between the United States and South Korea created a large United States market for South Korean goods, which fostered its export-oriented strategy since the sixties.

Although growth was particularly slow for the early years of the state, the North Korean offensive in 1950 served as a catalyst for short-term development. Immediately following the end of the Korean War, the United States issued a financial aid package

¹⁰⁷ Carter J. Eckert, "Korea's Economic Development in Historical Perspective, 1945-1990" in *Pacific Century: The Emergence of Modern Pacific Asia* (Westview Press, 2007), 287-307.

that would total \$1 billion with continued military support.¹⁰⁸ This package allowed the South Korean government to focus on developing its economic foundation without diverging large amounts of money for the expansion and maintenance of its military as it fell under the United States military's security umbrella. Throughout the 1950's, over 80% of South Korea's income came through subsidies issued by the United States.¹⁰⁹

The largest change to the ROK's economic reforms came in the early 1960's when the United States drafted a plan to decrease the financial aid to South Korea. In response, the new South Korean President Park, Chung Hee, introduced a five-year plan focusing on economic industrialization. These reforms were self-lead and established a new export oriented strategy to build the nation. President Park create the Korean Trade Promotion Corporation (KOTRA) to provided industries "exceptions from duties on imported intermediates, tax incentives, preferential access to capital, special depreciation allowances on imported capital equipment, and a variety of non-pecuniary awards."¹¹⁰ The creation of this institution allowed South Korean goods to reach larger markets throughout the world while companies imported technology and equipment at lower costs.

In 1965, South Korea initiated the normalization of economic ties with Japan, its formal colonizers and enemy, through a formal treaty. The treaty was lead by President Park who saw an opportunity to expand his state's trade to a larger market within close geo-graphic proximity.¹¹¹ The normalization could not have occurred under President Rhee, who was an advocate against further Japanese influence on the Korean Peninsula with the potential of economic colonization. President Park believed normalizing relations with Japan would enhance his state's credibility on the international stage while opening these markets to Korean goods.

¹⁰⁸ Richard Stubbs, *Rethinking Asia's economic miracle: the political economy of war, prosperity and crisis* (New York, NY: Palgrave MacMillan, 2005), 86.

¹⁰⁹ Marcus Noland, *Pacific Basin Developing Countries: Prospects for the Future* (Washington, DC: Institute for International Economics, 1990), 40.

¹¹⁰ Ibid., 41.

¹¹¹ Carter J. Eckert, "Korea's Economic Development in Historical Perspective, 1945-1990" in *Pacific Century: The Emergence of Modern Pacific Asia* (Westview Press, 2007), 290.

This relationship blossomed into a complex interdependence that has lasted for over 40 years. The Korean peninsula has been the principal area for investment by Japanese businesses since 1951, accounting for over 54% of all investments. Along with monetary investment, the exchange of information and technology has allowed South Korea to reorganize its factories and to ensure it produces goods at the most efficient level.¹¹²

These close economic ties continue today has helped to dampen security concerns between the two nations that have been present since the Second World War. Figure 1 shows trade data between South Korea and Japan since 1988 using the following formula to measure their interdependence:

$$\frac{\text{Exports} + \text{Inputs}}{\text{GDP}} \times 100$$

The data show South Korea has a larger stake in cooperating with Japan as a larger percentage of its economy benefits from this economic relationship. If a complex economic interdependence occurred between the ROK and the DPRK, we can expect the DPRK's economy to be more reliant on the ROK's economy due the difference in size. As the DPRK receives greater benefits from an increase in intra-Korean relations, the theory expects the DPRK to turn towards a relationship based on trade with the potential to remove the security threat from the peninsula.

¹¹² Carter J. Eckert, "Korea's Economic Development in Historical Perspective, 1945-1990" in *Pacific Century: The Emergence of Modern Pacific Asia* (Westview Press, 2007), 291.

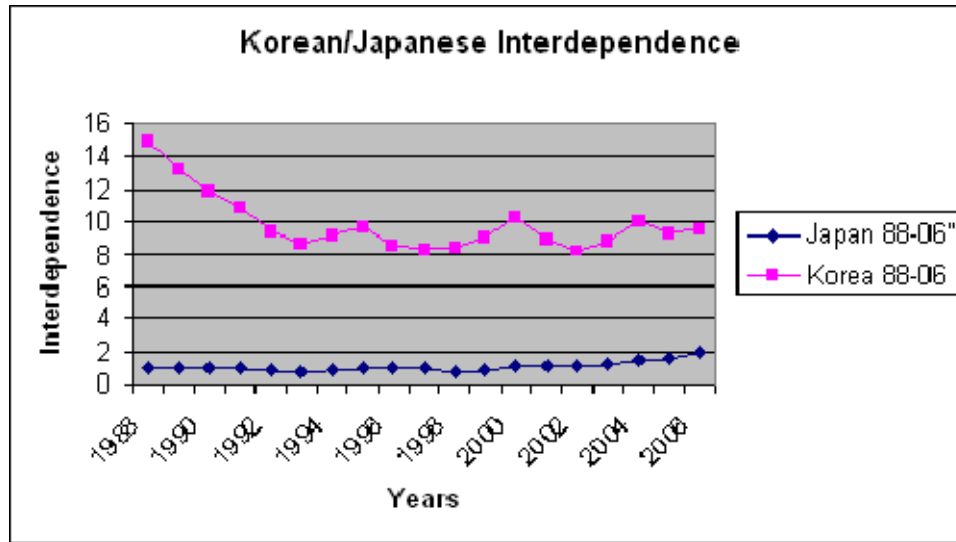


Figure 1. Korea and Japan's Economic Interdependence

To assist in maintaining its comparative advantage, the ROK restricted imports from other countries creating an almost exclusive market for Korean made goods within its own borders. Korea continued on an export-oriented policy throughout the 1980s as its GDP grew at an average of 8.4%.¹¹³ South Korea continued to protect its markets for nearly twenty years after normalizing relations with Japan. South Korean imports in 1963 was a meager 15.9% and did not improve until the eighties after the majority of its development was over and imports reached a level of 34.4% in 1987, demonstrating the advantage of obtaining a large market for industrializing countries.¹¹⁴

Through present day, the Republic of Korea has shown an increased flexibility when dealing with economic growth. The ROK per capita in 1963 was a meager US\$ 100 prior to the adopting the export orientation plan compared to a 1990 figure of US\$ 5,000, leading many to label its development “the miracle of the Han.”¹¹⁵ South Korea

¹¹³ Richard Stubbs, *Rethinking Asia's economic miracle: the political economy of war, prosperity and crisis* (New York, NY: Palgrave MacMillan, 2005), 22.

¹¹⁴ Marcus Noland, *Pacific Basin Developing Countries: Prospects for the Future* (Washington, DC: Institute for International Economics, 1990), 47.

¹¹⁵ Carter J. Eckert, “Korea's Economic Development in Historical Perspective, 1945-1990” in *Pacific Century: The Emergence of Modern Pacific Asia* (Westview Press, 2007), 287.

continued to grow at an average rate of nearly 7% through 2002 after opening its domestic markets to foreign goods. South Korea demonstrated its ability to absorb external shocks after the Asian Financial Crisis of 1997-98 where it recovered with a 10.7% growth rate following a year of negative growth.¹¹⁶

F. CONCLUSION

The historical paths of each Korean state can be utilized to create goals that each state can utilize to help reach unification. Viewing the “X” year plans that have been associated with each state can introduce the North Korean citizens to modern ideas over a slow period, damping the shock associated with a rapid absorption. Using the ROK model of self-lead reform, the reforms can conform to the DPRK’s Juche ideology while still falling under the realm of Korean inspired. This removes the fear of outside nations pushing the Korean peninsula towards reforms that places the benefits on foreign nations vice the Korean states.

The ability of South Korea to put aside its past difference with Japan as both nations placed economic development first can be a model to allow North Korea to do the same with the ROK. If a normal relationship emerges economically between the two Koreas, we can expect the DPRK to be more dependent on the interactions with the ROK and keep intra-Korean trade and communication open. This interdependence can help modernize the DPRK economy while creating trust throughout the peninsula, which is vital before unification.

Building off the economic relationship, the ROK will be in a position of great influence over the DPRK. The ROK can use this position to both directly and indirectly force the DPRK to adapt goals and principles to assist in unification including the continued pressure to halt its nuclear weapons program and dismantle its production facilities. Creating a stable security situation on the peninsula can aid in enabling additional travel measures between the two states allowing citizens to exchange ideas and

¹¹⁶ Richard Stubbs, *Rethinking Asia’s economic miracle: the political economy of war, prosperity and crisis* (New York, NY: Palgrave MacMillan, 2005), 202.

stories of life in each state. The continued interactions between Korean citizens can help create the greater Korean identity needed to remove mental barriers still present after Germany's unification.

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IV. THE SCENARIOS FOR UNIFICATION

A. INTRODUCTION

This chapter focuses on three different unification scenarios: 1) an internal collapse of the DPRK government followed by absorption by the ROK; 2) Establishing a Free-Trade Area that includes the DPRK to introduce capitalism into the closed economy; 3) Establishment and expansion of Special Economic Zones that introduces capitalism into the DPRK under the tutelage of the ROK. While the first scenario may be the least preferred by the international community, it continues to remain a possibility. The second and third scenarios provide two alternate paths of reaching the desired end state of reducing the economic gap between the two states while creating trust, which can lead to unification after continued interactions. Each economic scenario contains a historical example of the selected process achieving the effects needed throughout the peninsula. This chapter concludes with a review of which scenario has the best probability of occurring while still achieving the end state of a unified Korean state, free of nuclear weapons that take an active role in the international community.

I weigh each scenario against five variables that can assist in unifying the peninsula: time, financial costs, regional stability, acceptability of the international community and building trust. All variables are measured on a scale of 1 to 3, with 1 being the most desirable and 3 being the least. The variable of time is weighed on the same scale of 1 to 3, as 1 will represent a fast unification and 3 embodying a long process. While additional variables are present on the peninsula, I focus on these five to compare the three different scenarios. Table 1, below, summarizes my conclusions:

Table 1. Comparison of Scenarios

	Time	Financial Cost	Regional Stability	Acceptance of the Int. Community	Trust
Collapse	1	3	3	3	3
FTA	3	2	2	2	2
SEZ	3	1	2	2	1

B. COLLAPSE AND ABSORPTION OF THE DPRK

While Kim Jung-Il continues to keep the Democratic People's Republic of Korea an independent state through extensive rent-seeking measures, the potential of a regime collapse has not diminished. A collapse appears to be the most widely accepted unification scenario, with an end state similar to Germany in the early nineties. The uncertainty of the health of President Kim with the lack of an apparent successor adds to the likelihood of a collapse and keeps the possibility of this scenario high.

A collapse of the DPRK will bring a tremendous shock to the world economy larger than the events following the downfall of East Germany. When Germany, a nation also affected by a division during the Cold War reunited in 1990, the difficulty of merging two different economies became visible. The West German expenses between 1991 and 2004 are over \$1.4 trillion to bring the two different economic states together.¹¹⁷ Germany saw unemployment rise to 40% while downsizing the East German military, incorporating two societies while trying to raise the standard of living for all German citizens.¹¹⁸ Although some of the German problems were unforeseen and unavoidable during its unification, Germany's experience can be used as a roadmap for the potential Korean unification while incorporating additional unforeseen problems.

While this scenario will be the fastest road to unification, it ranks low in the other variables of the matrix. The financial cost associated with unifying the Korean peninsula will dwarf that of Germany. Prior to the German unification, the smaller state's level of income was about 25% of the larger state; this is in sharp contrast to the 6% ratio on the Korean peninsula.¹¹⁹ The ratio of population difference is almost twice as large on the Korean peninsula as it was within Germany in the nineties pushing unification costs higher.

¹¹⁷ Charles Wolf Jr. and Kamil Akramov, *North Korean Paradoxes: Circumstances, Costs and Consequences of Korean Unification* (Santa Monica, Calif: RAND Corp., 2005), 71.

¹¹⁸ Kang Suk Rhee, "Korea's Unification: The Applicability of the German Experience," *Asian Survey* 33, no. 4 (1993), 371.

¹¹⁹ Charles Wolf Jr. and Kamil Akramov, *North Korean Paradoxes: Circumstances, Costs and Consequences of Korean Unification* (Santa Monica, Calif: RAND Corp., 2005), 28.

The collapse of the DPRK would cause widespread panic and national adjustments throughout the region as the nations would be urged to provide relief through both personnel and monetary support.¹²⁰ Without a solid handle on the economy of the DPRK, the cost of merging the Korean peninsula following an internal collapse have been estimated on the low end of \$100 billion dollars¹²¹ and \$1 trillion dollars¹²² at the high end. The longer the two economies continue down separate paths, increasing the economic gap between the two states, the costs of unification will continue to increase. In terms of personnel, estimates call for over 460,000 military troops to maintain order within the DPRK if a collapse were to occur.¹²³ We can expect additional personnel including NGOs and advisors to assist in rebuilding the nation on top of the military force required to maintain law.

During the unification of Germany, a massive influx of East Germans made their way into West Germany looking for a new start. The same pattern should be expected during this scenario and must be planned for accordingly. Using elements already present on the Korean peninsula and enacting additional measures, a large migration can be minimized. Removing barriers during Germany's unification only made the migration problem worse allowing Korea to learn a valuable lesson as plans for unification evolve. Maintaining the current boundaries of the DMZ will ease the amount of refugee that may flow south in search of a better life.¹²⁴ Establishing camps that administer food and medicinal aid on the northern sector of the DMZ may help keep North Korean citizens from venturing further south. Along with aid, educational materials should be available to warn any refugee about the potential hazards associated with continuing their journey

¹²⁰ Kent E. Calder, "U.S. Foreign Policy in Northeast Asia," in *The International Relations of Northeast Asia* (Lanham, Maryland: The Rowman and Littlefield Publishers, Inc., 2004), 234.

¹²¹ Ibid., 238.

¹²² Markus Noland, "Why North Korea will muddle through," *Foreign Affairs* 76, no. 4 (July/August 1997), 114.

¹²³ Anonymous, "Study: 460,000 Troops Needed if N. Korea collapse," *DefenseNews.com* January 28, 2009, <http://www.defensenews.com/story.php?i=3923129> (accessed February 2, 2009).

¹²⁴ Kang Suk Rhee, "Korea's Unification: The Applicability of the German Experience," *Asian Survey* 33, no. 4 (1993), 373.

south including the presence of unexploded ordinance and land mines. The same camps can be established at the northern border with China and Russia to minimize refugee flows north.

In addition to stopping refugees, the amount of health care that must be administered to the citizens of the DPRK poses another problem. To minimize cost and migration, a short-term solution providing basic health care should be established until the focus is able to shift toward rebuilding the economy of North Korea.¹²⁵ When the new Korean nation establishes security and starts to bring income and wealth into the territory that was once North Korea, a new plan can be drafted to ensure the long-term health benefits are available to its citizens.

Simultaneously away from the borders, efforts must be made in the populated areas of North Korea to raise the standard of living and encourage citizens to remain in these areas rather than risk migrating elsewhere.¹²⁶ Reducing the effects of migration will allow additional supplies and support to travel further north into the former DPRK territory assisting in establishing order. Rebuilding a nation cannot occur until basic needs, including health care and security, are met allowing the citizens to become a part of the process.

The military sector of North Korea constitutes another challenge due to its immense size. Over a million households could be affected if this force were to dissolve and remove these families income. As seen in Iraq, demobilizing an army increases unemployment and creates a pool of trained professionals that can decrease the security environment and hindering unification. Diplomatic engagement of the military sector is vital to ensure a smooth unification process occurs.

The military, which comprises some of the most educated and healthy North Korean citizens, can be utilized to maintain security in the north while transforming the states' philosophy of Juche. In order for this to occur, the South Korean military must

¹²⁵ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 215.

¹²⁶ Charles Wolf Jr. and Kamil Akramov, *North Korean Paradoxes: Circumstances, Costs and Consequences of Korean Unification* (Santa Monica, Calif: RAND Corp., 2005), 35.

absorb the leadership of the North Korean military and issue orders down to the lowest branches of the military. This concept will only occur if the North Korean military is treated equally and external nations remove their military forces from the area that was once North Korea and focus on the border areas. The downsizing of the military should only occur after security is maintained and alternative careers are available.

While the bulk of responsibility for assisting the DPRK after a collapse will fall on the ROK, they will not be the only nation involved either directly or indirectly. The United States and Japan can be expected to act along historical lines providing assistance as needed. Neighboring nations will seek to create a stable Korean peninsula to ensure security for their future while creating a favorable area for investments. The IMF and World Bank can be expected to give South Korea grants and loans to keep the new nation from falling into a recession, which they may not be able to overcome. These nations and institutions will help ease the transition to a unified Korean nation that will be self-sufficient and can provide aid to developing nations in the future

The nations of South Korea, Japan, China and the United States wish to avoid this scenario and pursue other options due to the sheer costs and potential security uncertainty that accompanies a collapse of the DPRK. Many of these nations currently provide humanitarian aid to help the citizens of North Korea without an end state of building trust or unifying the peninsula.¹²⁷ A unified Korean peninsula through this scenario may experience years of internal fighting as former Kim supporters, revolutionaries, political moderates and counter-revolutionaries could form an insurgency creating security issues that must be overcome before a unified nation emerges.

A collapse of the DPRK could also create a new political battleground as the United States, ROK, Japan, PRC and Soviet Union wrestle for influence over the new nation. While these nations are currently involved in the six-party talks and possess the same goal of a denuclearized peninsula, quickly removing the nuclear variable can disintegrate the trust among the regional powers built during this process. These nations

¹²⁷ Mark E. Manyin and Mary Beth Nikitin, "U.S. Assistance to North Korea," *Congressional Research Service* Order Code RS21834 (July 7, 2008), CRS-2.

have historically clashed both militarily and politically over the future of the peninsula including recently with the notion of placing embargoes on the DPRK through the United Nations.

While the scenario of a DPRK collapse will always be an option, it contains numerous problems that can arise making it the scenario the international community wishes to avoid. The speed is acceptable but at the expense of regional stability and financial cost. It provides no basis to create trust either between the two Korean states or through the regional players that will be involved. While it is undesirable for all nations involved, it still must be used to plan for the future of the Korean peninsula as this scenario's probably remains likely.

C. FREE TRADE AREA

The second scenario for unification involves a slow opening of the DPRK to the outside world using a Free Trade Area on the peninsula with the potential to grow and encompass additional nations. The possibility of a free trade area in Northeast Asia has immense benefits to a nation like the DPRK as its products can find additional markets while being priced below those products manufactured in more developed nations. Historically, a free trade agreement favors the smaller country while the more advanced country/countries experiences minimal gains.¹²⁸ Two large free trade zones have been mentioned as a model for this concept; the North American Free Trade Agreement encompassing the three countries making up North America and the European Union that continues to take smaller countries into its membership. I will briefly explain how NAFTA help spur FDI into North America as well as some of the fallbacks before examining how this scenario may play out on the Korean Peninsula.

1. NAFTA

Examining the North American Free Trade Agreement (NAFTA), we can see how different economies can benefit from such an agreement while interlocking their

¹²⁸ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 208.

economies and expanding the benefits throughout the region. NAFTA went into effect on January 1, 1994 incorporating the three nations of North America: the United States, Canada and Mexico.¹²⁹ It immediately linked the three nation's economies, bringing the capital rich economies of the United States and Canada with the labor abundant economy of Mexico.¹³⁰ Each nation received a substantial benefit from the treaty as trade increased.

The treaty brought an increase in FDI into the region, as it became a stable area for investments. The treaty brought in two different forms of investors, those who sought markets and those who sought resources.¹³¹ The companies wishing to seek resources placed their investments into Mexico while Canada and the United States received investments from the companies seeking markets. Many corporations already operating inside the United States were now able to view Canada as a different market as they exported products north without tariffs allowing them to reduce their prices and increase profits.¹³² Many corporations grew stronger as they could now produce products at a lower cost thanks to the abundance of labor in Mexico while the market increased including all three nations.

An agreement similar to NAFTA has the ability to reform a nation's economic policy as the larger nation(s) transfer ideas and technology that normally would not flow into the smaller nation.¹³³ NAFTA ensured trade between the three nations remained high as the world continued down a path of globalization while Canada remained the United States largest trading partner and Mexico moved into the second place position.¹³⁴ The relationship between these nations allowed Mexico to liberalize its economic policies

¹²⁹ Dorothee J. Feils and Manzur Rahman, "Regional Economic Integration and Foreign Direct Investment: The Case of NAFTA," *Management International Review* 28, no. 2 (2008), 148.

¹³⁰ David Bacon, "Displaced People: NAFTA's Most Important Product" *NACLA Report on the Americas* 41, no. 5 (September/October 2008), 23-27.

¹³¹ Dorothee J. Feils and Manzur Rahman, "Regional Economic Integration and Foreign Direct Investment: The Case of NAFTA," *Management International Review* 28, no. 2 (2008), 149.

¹³² *Ibid.*, 158.

¹³³ Masahiro Kawai and Ganeshan Wignaraja, "EAFTA or CEPTA: Which way forward?," *ASEAN Economic Bulletin* 25, no. 2 (2008), 129.

¹³⁴ Robert A. Pastor, "Becoming North America," *International Educator* 17, no. 6 (November/December 2008), 62.

as they began to close the gap between itself and the NAFTA members.¹³⁵ The interdependence between the three nations increased while many sought to increase the FTA to South American nations currently holding only bilateral agreements with the NAFTA nations.¹³⁶ The continued investments both into and out of the United States have created an era of competitiveness throughout the Western hemisphere that benefits all nations.

However, this plan also had its setbacks. Many businesses closed, as they could not remain competitive with the larger firms as they benefited from the increase in trade activity.¹³⁷ As tariff barriers fell and United States farmers exported corn into Mexico, the price of corn decreased forcing Mexican farmers to lay off workers, as they could not remain competitive. Many workers of the agricultural sector of Mexico migrated north into the United States searching for employment opportunities.¹³⁸ The migration problem may continue for a generation before the education level and job opportunities between the partner nations equalize.¹³⁹ The short-term pain of businesses going bankrupt and the unemployment it causes have to be endured before the economic sectors stabilize allowing a nation to achieve its full potential.

2. Incorporating the Korean Peninsula

Through the region of East Asia, economic integration has already begun. Comparing trade from 1980 through 2007, intraregional trade has increased 22% as FDI continues to rise.¹⁴⁰ The increase in trade is proportional to investments as the majority of investments come from industrialized countries towards those developing. Creating a FTA between the two Korean states can help guide the development of North Korea to

¹³⁵ Dorothee J. Feils and Manzur Rahman, "Regional Economic Integration and Foreign Direct Investment: The Case of NAFTA," *Management International Review* 28, no. 2 (2008), 160.

¹³⁶ Susan Segal, "Letter from the Publisher," *Americas Quarterly* 2, no. 4 (Fall 2008), 32.

¹³⁷ Robert A. Pastor, "Becoming North America," *International Educator* 17, no. 6 (November/December 2008), 62.

¹³⁸ David Bacon, "Displaced People: NAFTA's Most Important Product" *NACLA Report on the Americas* 41, no. 5 (September/October 2008), 23.

¹³⁹ *Ibid.*, 23.

¹⁴⁰ Masahiro Kawai and Ganeshan Wignaraja, "EAFTA or CEPTA: Which way forward?," *ASEAN Economic Bulletin* 25, no. 2 (2008), 114.

ensure its model of development continues to grow and does not stagnate.¹⁴¹ Limiting the FTA to the Korean peninsula will allow South Korea to control the interdependence level of the DPRK making it easier to set reforms within its borders.¹⁴² Marking reforms while liberalizing the North Korean economy can set a foundation to build towards a reunified peninsula.

In order for this scenario to occur, the nations in the region must pursue open economic talks aimed at introducing capitalism to the DPRK. South Korea can act as a gateway to introduce these new policies from a Korean perspective to avoid violating the North Korean Juche philosophy. The current framework of the Six-Party talks can be molded to incorporate economic interests throughout the region similar to NAFTA. While these talks currently do not involve the possibility of unification, they have established a link between the countries of the region that did not previously exist.

An agreement similar to that of the North American Free Trade Agreement will produce two functions; help bridge the gap in economic productivity and continue to build trust throughout the region thus reducing instability. The possibility of a free trade agreement originating between the two Korean states and further expanding to neighboring countries increases the economic market for DPRK goods while providing the government with a new source of income.¹⁴³ While the DPRK has the most to gain economically from a FTA, the ROK will favor increasing its security while providing inexpensive products to its citizens. While ROK's economic benefit will not be as large, the increase in security would be suitable to pursue this option.¹⁴⁴ As the interactions between the two Korean states are increased and become more dependable, common goals for each state can start to develop.

¹⁴¹ ¹⁴¹ Masahiro Kawai and Ganeshan Wignaraja, "EAFTA or CEPTA: Which way forward?," *ASEAN Economic Bulletin* 25, no. 2 (2008), 134.

¹⁴² *Ibid.*, 118, 130.

¹⁴³ Jay Speakman and Chae-Jin Lee, *The Prospects for Korean Reunification* (Claremont, Calif: Keck Center for International and Strategic Studies, Claremont McKenna College, 1993), 50.

¹⁴⁴ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 208.

While products may initially be the only items exchanged over the 38th parallel in a FTA, the possibility for capital and technology to flow into the DPRK is also present. Along with the physical aspects including capital and technology, the DPRK may also adopt managerial skills and labor reforms from the businesses in South Korea similar to Mexico within NAFTA.¹⁴⁵ The words of William Langdon from 1942 again ring true: “...For a generation at least Korea would have to be protected, guided and aided to modern statehood...” as internal DPRK reforms have failed to reach their desired effects.¹⁴⁶

Over 86% of the Korean population was born after the division of the peninsula.¹⁴⁷ The large percentage of a young population within North Korea enhances its ability to learn and adapt to new ideas and reforms.¹⁴⁸ This younger generation already experience capitalist ideas on a low level through their interactions with the emerging markets in the urban areas of the DPRK. We can expect the young population to rise to the level of managers and leaders of industries as they have a foundation in capitalist principles. The process of the FTA will be bumpy, as the DPRK will have to adapt rapidly to a new environment without a mentor guiding its development. However, as the younger citizens observe new economic policies within a new system, they may continue to pursue a capitalist economic model moving the nation’s economy closer to that of the ROK becoming the next generation of managers and leaders.

As these two states continue to increase trade over time, they will also reduce the security tensions as their economic interdependence increase. If the FTA becomes a success, neighboring countries can join the agreement increasing the interdependence of the Korean peninsula throughout the region. This would not be the first occurrence of a proposed FTA in the region as China brought the possibility to both Japan and South

¹⁴⁵ Jay Speakman and Chae-Jin Lee, *The Prospects for Korean Reunification* (Claremont, Calif: Keck Center for International and Strategic Studies, Claremont McKenna College, 1993), 44.

¹⁴⁶ *Ibid.*, 5.

¹⁴⁷ Joungwon Alexander Kim and Myungshin Hong, “The Koreas, Unification, and the Great Powers,” *Current History* 105, no. 690 (April 2006), 186.

¹⁴⁸ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 211.

Korea in the past.¹⁴⁹ Currently, the Shanghai Cooperation Organization is located throughout central Asia incorporating both the PRC and Russia as members.¹⁵⁰ While the SCO is mainly concerned with terrorism and cross border support for insurgencies in Central Asia, it may help bring peace to the peninsula if both Korean states become members creating another venue to voice concerns while they build trust working together. The United States should not be a direct participant of a FTA with the DPRK due to the mistrust developed between these two nations in the last fifty years. However, they can still benefit from such an arrangement through its continued interactions with the South Korean and Japanese markets.

This scenario may take the longest time to achieve the goal of unification, as the DPRK's economy will continue to grow closing the current level of economic disparity between the two Korean states. The highest factor in establishing a FTA that meets the objectives is the removal of the security threat of the peninsula. The continued interactions between the two Korean states can increase regional security, as the DPRK will have a larger incentive to focus on economic cooperation rather than policies that can be seen as aggressive. If the DPRK decides to halt its current military posture, the length of unification will no longer serve as a priority for ensuring a smooth transition. A form of detente will emerge as the two states move towards a similar set of goals.

The cooperation of the two Korean states towards these goals will build trust. However, the potential for the DPRK to remain a separate state with a new source of income remains likely. If the relationship between the two Korean states become normalized, the issue of unification will be decreased and provide time to work through the numerous issues that are currently in place. The international community will be supportive of a FTA, but only after the DPRK government acts in a responsible fashion that demonstrate it will not default on loans, continue to hold large trade imbalances or advance its nuclear weapon program.

¹⁴⁹ Masahiro Kawai and Ganeshan Wignaraja, "EAFTA or CEPEA: Which Way Forward?" *ASEAN Economic Bulletin* 25 no. 2 (2008), 116.

¹⁵⁰ Juro Nakagawa, "Peacekeeping and Global Business in Northeast Asia," *International Journal on World Peace* 24, no. 1 (March 2007), 33.

The more nations involved in the FTA can create separate paths for the DPRK to continue its economic growth while maintaining the ability to coexist peacefully with the ROK. This may remove incentives for the DPRK to focus on common goals to lead to a unified peninsula and continue down a path of self-reliance. The possibility to continue to trade with the international community while advancing its nuclear weapons program can make an FTA disadvantageous to the goals of increasing security and unifying the Korean peninsula. Mitigating this possibility may occur through establishing a small FTA that only involves the Korean states allowing the ROK to push towards denuclearization and unification. However, South Korea would not be able to keep the DPRK from signing additional FTA with outside nations creating different paths of economic development and maintaining the status of two Korean states.

D. SPECIAL ECONOMIC ZONES

The final scenario is the establishment and expansion of special economic zones, similar to those that were successful in opening China's economy to the world, within the DPRK under the guidance of the ROK. Like the second scenario, this method will be long and possibly take generations, but has a higher potential for unification. Again, the cost to the international community will be minimal making it more appealing, with the potential to build trust and increase the security throughout the peninsula. I will first examine how SEZs helped spur economic growth within China between 1984 and 1994 before showing how it can be applied towards North Korea.

1. Chinese SEZs

The PRC experienced a rapid decline of annual GDP followed by a period of inconsistent growth, culminating with negative growth in 1976.¹⁵¹ The unexpected economic roller coaster paved the way for Deng Xiaoping's open door policy in 1978. This policy replaced the importance of communist ideology with economic growth as the

¹⁵¹ Data from the World Bank
<http://ddp-ext.worldbank.org/ext/DDPQQ/report.do?method=showReport> (accessed January 6, 2009).

state's policy in an effort to solidify the party's rule over the China.¹⁵² This dramatic shift was possible due to the economic exhaustion felt throughout the Chinese leadership.¹⁵³ Figure 3 demonstrates the dramatic decrease in GDP growth during the early seventies of China followed by the subsequent growth from the mid eighties for approximately ten years using SEZs before party leaders implemented additional economic reforms to maintain their growth around ten percent.

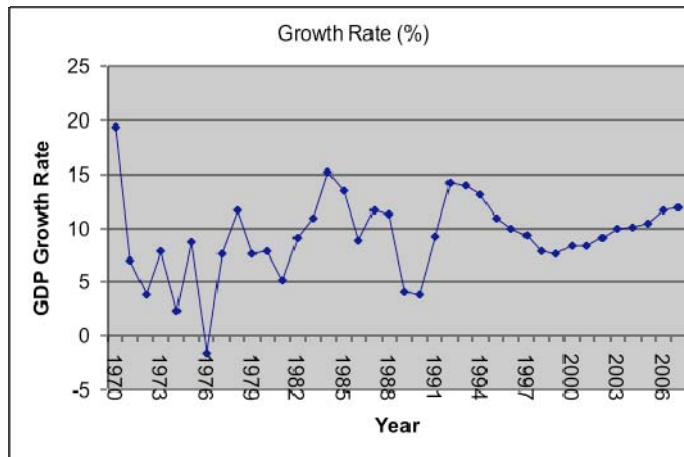


Figure 2. GDP Growth Rate for the PRC from 1970-2007

The establishments of SEZs in various isolated areas become “a window for technology, for knowledge, for managerial expertise and for China’s foreign policy” helping to launch the open door policy.¹⁵⁴ The leadership of the CCP understood they were falling behind the rest of the world in economic power and decided to inject a boost into the industrial sectors by creating SEZs. These zones became an arena for gaining additional knowledge through technology and western business practices while creating an influx of foreign investment all the while keeping the capitalist footprint small.¹⁵⁵

¹⁵² Sheying Chen, “Economic Reform and Social Change in China: Past, Present, and Future of the Economic State,” *International Journal of Politics, Culture, and Society* 15, no. 4 (Summer 2002), 572.

¹⁵³ Hugo Restall, “The Lessons from 30 years of Chinese Reform,” *The Wall Street Journal* December 16, 2008, A23.

¹⁵⁴ Kwan-Yui Wong, “China’s Special Economic Zone Experiment: An Appraisal,” *Geografiska Annaler: Series B, Human Geography* 69, no. 1 (1987), 33.

¹⁵⁵ Jici Wang and John H. Bradbury, “The Changing Industrial Geography of the Chinese Sepcial Economic Zones,” *Economic Geography*, 62, no. 4 (October 1986), 318.

However, within the leadership of the CCP, a debate occurred over the establishment of these zones including where they would be located and how they would operate.¹⁵⁶ One can conclude the same debate is currently taking place within the Kim administration in Pyongyang after viewing statements published in the DPRK news after Kim's visit to the Chinese SEZs. In addition to providing much needed capital and technology, these zones provided the CCP with a secluded area to test reforms without the fear of failure associated with introducing them to the nation as a whole.

The catalyst behind the development of the SEZs rested on foreign investment while granting autonomy for international business practices within each zone.¹⁵⁷ President Deng made his intentions clear to potential investors in these zones by stating "in establishing special zones and carrying out the open policy, we must be clear about the guiding thought which is not to restrict but to open wider" showing his commitment to build and expand these zones.¹⁵⁸ The zones were able to attract vast amounts of investments from companies without ties to China in their initial offerings. The SEZ brought in 60% of China's national foreign investments in 1981 and continued to constitute 26% of China's investments in 1984.¹⁵⁹

The SEZs pooled western industrial technology with the natural resources and abundant labor in China creating greater profits for the investors while increasing the standard of living for the area's population as the economy continued to grow. The initial investments went towards building infrastructure projects for the first 5 years creating an industrial base within each SEZ. The investments later went to techniques and equipment that made manufacturing more efficient as a more export-oriented strategy was adopted,

¹⁵⁶ Kwan-Yui Wong, "China's Special Economic Zone Experiment: An Appraisal," *Geografiska Annaler: Series B, Human Geography* 69, no. 1 (1987), 27.

¹⁵⁷ C. Cindy Fan and Allen J. Scott, "Industrial Agglomeration and Development: A Survey of Spatial Economic Issues in East Asia and a Statistical Analysis of Chinese Regions," *Economic Geography* 79., no.3 (July 2003), 302.

¹⁵⁸ Kwan-Yui Wong, "China's Special Economic Zone Experiment: An Appraisal," *Geografiska Annaler: Series B, Human Geography* 69, no. 1 (1987), 28.

¹⁵⁹ *Ibid.*, 29.

allowing the SEZs to expand.¹⁶⁰ This change in resource allocation brought added profits to each company as the activity within each zone increased along with the influx of more foreign investment.

Chinese SEZs originally relied on external components to construct a finish project, but within 15 years, they had the ability to produce a finished product from the resources within or surrounding each zone. By mid 1990's, the ability of the zones to produce a computer from start to finish without external inputs was achieved, reducing the overhead costs leading to larger profits for the companies involved.¹⁶¹ The ability to become self-reliant can be utilized to allow SEZs within the DPRK to expand while still under the guise of the Juche ideology.

The Chinese SEZs also became a testing ground for political policies to allow the CCP to determine if they would be effective for the entire nation. The Guangdong SEZ gave birth to the idea of job specific wage rates.¹⁶² Likewise, the Shenzhen SEZ created a policy to allow different companies to compete for various construction projects while allowing businesses outside of the SEZ to participate in the process.¹⁶³ The success of these reforms within the SEZs allowed the CCP to implement these reforms in other areas of the nation without the fear of failure or the Party losing its power over the nation.

These zones were buffer areas for the introduction of foreign ideas to China while keeping capitalist ideas restricted to the region of southeast China.¹⁶⁴ These ideas were able to flow to neighboring provinces, as they became part of the supply lines as production increased in each SEZ. The interactions between the neighboring provinces

¹⁶⁰ Kwan-Yui Wong, "China's Special Economic Zone Experiment: An Appraisal," *Geografiska Annaler: Series B, Human Geography* 69, no. 1 (1987), 32.

¹⁶¹ C. Cindy Fan and Allen J. Scott, "Industrial Agglomeration and Development: A Survey of Spatial Economic Issues in East Asia and a Statistical Analysis of Chinese Regions," *Economic Geography* 79, no. 3 (July 2003), 302.

¹⁶² Kwan-Yui Wong, "China's Special Economic Zone Experiment: An Appraisal," *Geografiska Annaler: Series B, Human Geography* 69, no. 1 (1987), 32.

¹⁶³ *Ibid.*, 32.

¹⁶⁴ C. Cindy Fan and Allen J. Scott, "Industrial Agglomeration and Development: A Survey of Spatial Economic Issues in East Asia and a Statistical Analysis of Chinese Regions," *Economic Geography* 79, no. 3 (July 2003), 302.

and the SEZs were beneficial to all China, as it became the cornerstone of China's developmental plan.¹⁶⁵ The design of these zones included a premise for potential future unification. The PRC allowed different economic ideas to flourish in areas close to territories that would eventually fall under its sovereignty including Hong Kong and Macao.¹⁶⁶

While the SEZs were successful and allowed China to sustain double-digit GDP growth between 1983 and 1994, the PRC also possessed obstacles that had to be overcome. Prior to the SEZs, China lacked a large pool of capable managers able to oversee new projects. They also did not possess the personal capable of coordinating activities between the various departments located within each SEZ. These two labor pools and their associated staff were created through on the job training from the various companies who invested within the SEZs.¹⁶⁷

Each SEZ also had problems generating enough electricity to continue production on a regular basis. The amount of energy needed to keep some SEZs open continuously cost more than the profits coming in from the operation of the SEZ. The central government issued subsidies to gap the negative cost and allowed the SEZ to grow to a size where the profits could cover the associated costs. The party accepted these costs in order to keep the SEZs and the associated capitalist principles away from populated areas, which could have maintained the electrical load, while ensuring the party's control over the SEZs development.¹⁶⁸

Some areas incurred problems with railroad connections, making the transportation of materials and finished good difficult.¹⁶⁹ This slowed the production of goods until enough capital was available to construct the necessary infrastructure for a

¹⁶⁵ Jici Wang and John H. Bradbury, "The Changing Industrial Geography of the Chinese Special Economic Zones," *Economic Geography* 62, no. 4 (October 1986), 318.

¹⁶⁶ *Ibid.*, 312.

¹⁶⁷ Kwan-Yui Wong, "China's Special Economic Zone Experiment: An Appraisal," *Geografiska Annaler: Series B, Human Geography* 69, no. 1 (1987), 36.

¹⁶⁸ *Ibid.*, 35.

¹⁶⁹ *Ibid.*

bustling industrial area. The Chinese SEZs were able to overcome these issues while catapulting the growth of China in the scope of one generation to a regional power. China's rise has been unparalleled to any country currently on the international scene, allowing them to compete with the industrialized nations of Europe and the United States.

In addition to economic benefits, these zones brought additional security. The area of Xiamen, located across the strait from the province of Taiwan, was once a military outpost used to launch artillery attacks into Taiwan. However, since it converted into a SEZ in the early eighties, it has transformed into a bustling financial management center. A large influx of indirect Taiwanese capital and management techniques helped the SEZ to flourish despite the two areas historical disputes. New legislation proposed by both the PRC and Taiwan may increase the interaction between the two areas while dampening the past security issues.¹⁷⁰

2. North Korean SEZs

The possibility of establishing special economic zones (SEZ) within North Korea has been debated within North Korea since the success of SEZs in China. However, it was not until 1990 when a member of the North Korean elite, Yon Hyung Muk, visited the Chinese SEZ of Shenzhen and witnessed its success.¹⁷¹ He brought the idea back into the DPRK for consideration. Further support for SEZ occurred in 2000 when President Kim Jung-Il praised the economic reforms made by the Chinese government after a visit to China.¹⁷² However, shortly after Kim Jung-Il's visit, two state-owned North Korea publications printed an article stating the conflict between SEZ and the Juche philosophy:

If one wants the prosperity of the national economy, he should thoroughly reject the idea of dependence on outside forces, the idea that he cannot live without foreign capital...We must heighten vigilance against the

¹⁷⁰ Yingjiu Ma, "Finally thinking Strait; Chinese and Taiwanese banks," *The Economist* 388, no. 8588 (July 12, 2008), 84.

¹⁷¹ Jay Speakman and Chae-Jin Lee, *The Prospects for Korean Reunification* (Claremont, Calif: Keck Center for International and Strategic Studies, Claremont McKenna College, 1993), 33.

¹⁷² Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 196.

imperialists' moves to induce us to "reform" and "opening to the outside world." "Reform" and "opening" on their lips are a honey-coated poison. Clear is our stand toward "reform" and "opening." We now have nothing to "reform" and "open." By "reform" and "opening" the imperialists mean a revival of capitalism. The best way of blocking the wind of

"reform" and "opening" of the imperialist is to defend the socialist principle in all sectors of the economy...We will never abandon the principle, but will set ourselves against all attempts to induce us to join an "integrated" world.¹⁷³

As the debate continued within the DPRK government, the failed economic reforms of 2002 left the DPRK leadership with little alternatives to keep the state from failing. Building upon the sometimes-rocky relationship of the two Koreas, a foundation was set for the creation of the Kaesong Industrial Complex (KIC).

In 2003, the construction of the KIC began with large investments from South Korean companies.¹⁷⁴ The ROK was able to take advantage of the abundance of North Korean labor, which is roughly one-third the cost of factory workers within the PRC, keeping its products competitive on the international market. The DPRK's government has benefited from the KIC by collecting taxes from both the employees and the companies working within the complex. The North Korean government has stopped all proposals for bonuses or incentive pay for workers and have funneled all payments to the central government first, ensuring all taxes are collected.¹⁷⁵

The KIC, labeled a "Free Market Concentration Camp," is used by the regime to limit the exposure of capitalism in the state with a fenced buffer zone around the complex.¹⁷⁶ While a strong communist footprint still exists within the zone, the workers are slowly introduced to capitalism as praise continues for the South Korean supervisors. The difference in physical appearance between the South Korean managers and the North

¹⁷³ Nick Eberstadt and Richard J. Ellings, *Korea's Future and the Great Powers* (Seattle: National Bureau of Asian Research in association with University of Washington Press, 2001), 196-97.

¹⁷⁴ Dick Nanto and Mark E. Manyin, "The Kaesong North-South Korean Industrial Complex" *Congressional Research Service* Order Code RL34094 (July 19, 2007), CRS-3.

¹⁷⁵ Barbara Demick, "THE WORLD; A One-Hour Commute to another World," *Los Angeles Times*, February 28, 2006.

¹⁷⁶ Dai-Won Koh, "Dynamics of Inter-Korean conflict and North Korea's recent policy changes; A inter-systemic view," *Asian Survey* 44, no. 3 (May/June 2004), 433.

Korean workers demonstrates the advantages of the southern capitalist economy over the current DPRK economy. It is assumed these differences are discussed out of the complex between the workers and their close family and friends when government representatives are not present.

The Republic of Korea views the KIC as a first step towards unification. They see the complex as a way to “encourage improved inter-Korean relations and accelerate the easing of tension on the Korean peninsula.”¹⁷⁷ This complex is the largest project completed inside the DPRK since its initial planned development following the Korean War. Through the KIC, both Korean governments have chosen to cooperate as economic growth increases while creating an atmosphere of trust, which has previously been absent in their relationship. As the complex expands and the investment climate of North Korea stabilizes, we will see additional South Korean companies wishing to invest in the DPRK.

Although this possibility will take a substantial amount of time, it has the best chance of leading to unification without the use of force and without a large influx of aid from the international community. The benefits of the KIC are already seen as the two states agreed on 11 additional joint economic projects within North Korea outside of the KIC in 2004.¹⁷⁸ Figure 2 shows the steady increase in economic adventures within the DPRK since 2001. This figure shows the potential for future trade remains high, the variable absent in Dale Copeland’s explanation for the outbreak of major conflict in Europe and the Pacific in the first half of the 20th Century. This variable may lead North Korea down a path of more cooperation as it continues to reap the benefits of additional economic integration with the south.

The willingness of the people of the DPRK to accept special economic zones and reference them in the constitution demonstrates the potential acceptance of increasing upon the KIC and opening other SEZs. The lack of fuel and spare parts throughout North Korea in the nineties contributed to its lack of growth without an alternate source besides

¹⁷⁷ ROK’s Ministry of Unification, “2005 White Paper on Korean Unification,” Chapter 3, 75, <http://www.unikorea.go.kr/eng/default.jsp?pgname=LIBwhitepapers#files> (accessed October 7, 2008).

¹⁷⁸ Ibid., 64.

inputs from the USSR. Yet, the ability of South Korea to supply these needed variables in addition to foreign capital through SEZs creates an atmosphere that can go beyond simple economic benefits and places leverage in the hands of the ROK government.¹⁷⁹

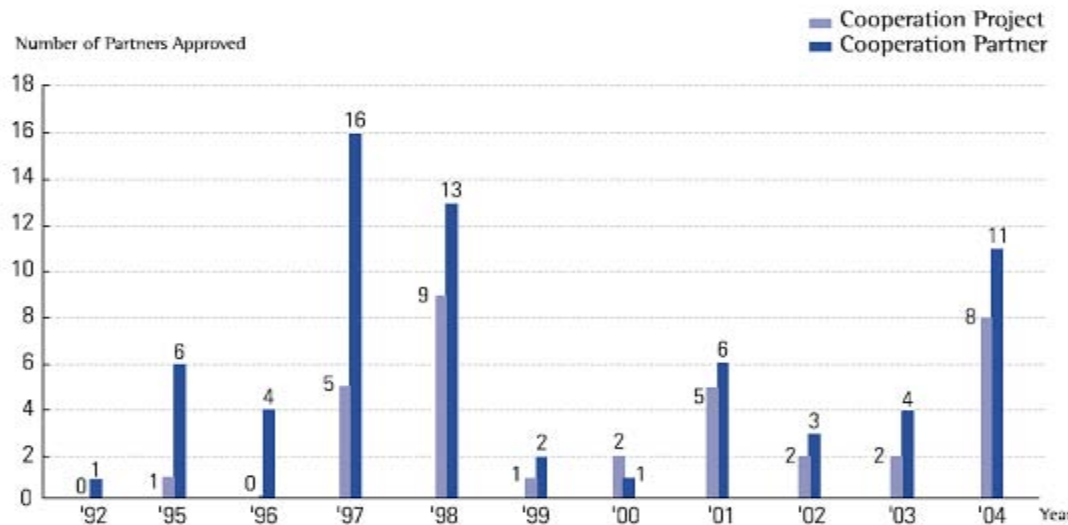


Figure 3. Economic Cooperation Partner/Project Approval

An increase in economic interdependence throughout the region can make the once hostile area into an economic center, unchallenged throughout the international community. The increased intra-Korean economic relations not only helps to build a foundation for peace but also helps to decrease the cultural shock that would be present in a collapse while the two states work towards common goals.¹⁸⁰ The application of the KIC towards additional zones with a focus towards Korea's neighbors can create additional successful SEZs. The geographic proximity of Japan, the PRC and the Soviet Union toward the DPRK holds tremendous potential for future zones, which can help bring the two Korean economies closer creating a smoother transition to a single nation. Incorporating neighboring nations will allow their economies to grow, increasing

¹⁷⁹ Michael Horowitz, "Who's bend that curtain? Unveiling Potential Leverage over Pyongyang," *The Washington Quarterly* 28, no. 1 (Winter 2004-05), 38.

¹⁸⁰ Han Aran, "Term 'reunification cost' inappropriate," Korea.net, October 31, 2007, http://www.korea.net/News/News/NewsView.asp?serial_no=20071026027 (accessed February 5, 2009).

the acceptance of this scenario from the international community. Care must be given to ensure these nations understand the end state of unification and cooperate with the ROK when pressure must be applied to the DPRK.

While reducing the cost for unification, this scenario also creates trust throughout the region that will not be hastily removed. Incorporating the nations of the region through different zones can reduce current hostilities while dampening any battle for influence on the peninsula, which would be apparent following a collapse of the DPRK. This scenario has the best possibility of occurring as both Korean states already took the first step down this path with the creation of the KIC. The KIC does not guarantee unification will occur but the added pressures that can be applied by the ROK towards the government of the DPRK can help set the stage for the reemergence of a unified Korean nation.

E. FREE TRADE AREA VS SPECIAL ECONOMIC ZONE

The FTA and SEZ scenarios both hold the potential to map the future of the Korean peninsula towards a unified nation. The main goal of each scenario is the same, reducing the disproportional living conditions and economic conditions between the two Korean states through a process that causes the lowest financial burden to the international community. Some analysts believe the foundation laid through strengthened business ties are irreversible and will lead to unification.¹⁸¹ Reaching unification appears possible through both scenarios with the SEZ obtaining a slight advantage, as the ROK continues to invest in infrastructure targeted at reaching the end state of unification.

The period for each scenario remains consistent between the two. Whatever path occurs, we can expect unification to take at least one generation, as building trust on the peninsula will not be an easy task. The increased economic ties helps lead to a more trusting relationship as the nations become increasingly dependent on the other for

¹⁸¹ Anonymous, "South Korea/North Korea: Unification moves closer," *Oxford Analytica* October 24, 2005.

peaceful coexistence. The economic interdependence theory tells us that states with intertwined economies will be more open to ensure both states receive the greatest benefit from the relationship.

The international community is primarily concerned with regional stability, or lack thereof, that spirals from the Korean peninsula. These two scenarios both contain the potential to help increase security through the region as intra-Korean tensions decrease through increased economic interactions. The possible expansion of these scenarios to include regional nations increases the acceptance of the international community, particularly the regional nations. The incorporation of neighbors has the possibility to increase the security of the region further as all parties will continue to benefit as trading nations vice committing hostile actions.

These factors appear to keep both scenarios fairly even, but the SEZ scenario holds three distinct advantages over the FTA: the probability of it occurring, the influence the ROK holds over the DPRK in a SEZ and the ability to connect the two economies without a third party. The possibility of a FTA occurring within Northeast Asia, while high, has yet to transpire. Creating an agreement between two states that historically have broken written treaties and committed crimes against the other continues to be a roadblock to future endeavors. The lack of oversight inside the borders of the DPRK allows them to conduct business that may be good for short-term growth but fails to achieve the long-term growth needed. The current projects scheduled for construction within North Korea come with the caveat of heavy South Korean oversight to ensure the projects will serve long-term interests.

The second advantage the SEZ holds over a FTA is the control the ROK has over the DPRK. The ROK has been able to flourish economically over the past 50 plus years without implementing SEZs inside North Korea. The same cannot be said of the DPRK, who becomes more dependent on the businesses associated with the operation of the KIC. This gives the ROK the ability to place milestones into future agreements, which can make progress to eliminate the north's nuclear weapons program. Additional caveats can be placed into future economic accords that can bring the two Korean states closer as the prospect of unification gets closer.

The last advantage is the ability of the SEZs to develop a deep economic interdependence between the two Korean states without a third nation developing the same relationship with North Korea. Removing the ability of additional nations interacting with the DPRK removes the potential for it to lean towards other nations and discourage unification. The ability of the ROK to influence future decisions by the ROK help place the SEZ scenario above that of the FTA.

F. CONCLUSION

The best scenario involves continuing the interaction between North and South Korea through the expansion of SEZs in order to build trust and expand upon the small portion of capitalism currently in the isolated state of the DPRK. The success of China's SEZs since the 1980s can be used as an additional incentive to persuade North Korea to continue down this path while installing new policies, which can be applied towards unification. Through the successful use of capitalist fundamentals and cooperation with the South Korean businesses and government through the SEZ, the political elite of the DPRK can shift the focus of North Korean life away from a stringent philosophy of Juche and towards an era of cooperation with the ROK.

Economic engagement can keep the two Korean states to continue down the path of cooperation while continuing to intertwine their economies. We can expect this relationship to grow similar to that of Japan and South Korea since 1965 while laying a foundation that removes invisible barriers between the two nations including an expansion in travel between to the two states. These actions will decrease security tensions as explained by the theory of economic interdependence while allowing the two states to work towards common goals. The first step in unification involves removing the invisible barriers and creating a single Korean identity that will allow the physical barriers to dissolve over the course of time.

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V. CONCLUSION

A. INTRODUCTION

This chapter focuses on how the DPRK can achieve similar results as China using a template similar to the Chinese SEZs. I examine the current SEZ within North Korea and the success achieved on this small scale as well as the additional benefits it has brought to the peninsula. I conclude with why I believe this is the best approach to engage North Korea that can lead to an end state of a unified Korean nation.

B. APPLICATION TOWARDS NORTH KOREA

The same issues that affected Deng Xiaoping's China in 1978 are visible today within North Korea. The debate within the government about the correct direction to take the state, the economic stagnation and frustration, a society closed off from the international community and the desire of the surrounding nations to invest within its borders. Using the third scenario of expanding SEZs within North Korean borders, similar to what occurred in China during the early eighties, brings tremendous benefits that assists with unification efforts on a parallel path.

The first successful SEZ within the DPRK is already established in the city of Kaesong. The Kaesong Industrial Complex (KIC) consists of over 15 South Korean companies selected from a pool of 136 companies that submitted proposals to the ROK government for the right to operate within the KIC.¹⁸² The complex began with a \$2 million investment from South Korea, a pool of 6,000 North Korean workers and 500 South Korean managers. The amount of South Korean workers has doubled to over 1,000 as the complex continues to expand incorporating additional FDI received from the

¹⁸² ROK's Ministry of Unification, "2005 White Paper on Korean Unification," Chapter 3, 77. The city of Kaesong can also be spelled as Gaesong. On the Ministry of Unification, the spelling of Gaesong is used but I use the spelling Kaesong throughout this thesis.
<http://www.unikorea.go.kr/eng/default.jsp?pgname=LIBwhitepapers#files> (accessed October 7, 2008).

companies operating inside the complex.¹⁸³ The first years of operation also saw the number of North Korean workers increased to 15,000, with plans to employ over 500,000 workers by the year 2012.¹⁸⁴ Yet, the complex is still relatively closed off to the citizens of North Korea with a fence maintaining a five-mile buffer zone around its perimeter.¹⁸⁵

With the additional capital flowing into the DPRK economy through the KIC, the government can invest in infrastructure and construct additional industrial complexes to garner additional foreign capital with the help from its southern neighbor allowing the South Korean companies with a desire to invest in the north the opportunity to use the resource of cheap labor. The DPRK can move the more established North Korean workers from the KIC to future complexes and assume the role of managers while creating additional areas of wealth and prosperity throughout the state while spreading free markets ideas. As North Korean executives and government officials continue to deal with the international community, the distrust of commonly associated with foreign nations will dissolve. Establishing a feeling of trust using South Korean economic advisors and spreading the capitalist ideology throughout the DPRK will lay a foundation that builds trust and allows both economies to merge forming a nation that can become an international economic powerhouse.

C. THE SUCCESS OF THE KAESONG INDUSTRIAL ZONE

The South Korean Ministry of Unification has placed an added emphasis on economic cooperation in its quest for stability and unification on the Korean Peninsula. The vision for unification released by the Lee Myung-bak administration created three goals to assist in the process: 1) build military trust between both states, 2) develop the economy of North Korea in a way that is beneficial to both states, 3) to raise the quality

¹⁸³ Ministry of unification website has a daily tracker for citizens inside North Korea. The number within the KIC has average between 1,000-2,000 from November 2008 to February 2009. <http://www.unikorea.go.kr/eng/default.jsp?pgname=ENGhome> (accessed from November 2008 through February 2009).

¹⁸⁴ By Moon Ihlwan, "A Capitalist Toehold in North Korea," *Business Week*, no. 4038 (June 11, 2007), 45.

¹⁸⁵ Barbara Demick, "THE WORLD; A One-Hour Commute to another World," *Los Angeles Times*, February 28, 2006.

of life for all Korean citizens.¹⁸⁶ I will focus this section on the development of the North Korean economy through the Kaesong Industrial Complex, a program proven beneficial to both states and continuing to grow.

The planned construction of the zone entails three phases over 10 years, allowing companies to produce goods while the zone expands.¹⁸⁷ Since its inception, the KIC has increased the amount of companies operating within the zone and as well as the products being produced. The basic principle behind the zone pairs the cheap labor available within North Korea to the managerial skills and technology from South Korean companies, similar to the SEZs of China. Creating an atmosphere similar to the South Korean/Japanese normalization of 1965, the South Korean government hopes to increase the living standards of all Korean citizens while pursuing an interdependent relationship beyond simple international institutions with North Korea. The trade between the two Korean states has totaled over US\$ 9 billion between 1989 and 2007. The majority of this trade occurred between the years 2005 and 2007, US\$ 4.5 billion, directly correlating to the construction of the KIC and its first two years of operation.¹⁸⁸ (See Table 2) Alternative methods of communication between the KIC and South Korea emerged as the amount of telecommunications equipment within the complex has doubled while connecting the KIC to the South Korean power grid in May 2007, providing an uninterrupted energy source.

¹⁸⁶ Ministry of Unification website, Unification Policy, Vision, <http://www.unikorea.go.kr/eng/default.jsp?pgname=POLvision> (accessed November 3, 2008).

¹⁸⁷ Ministry of Unification website, Inter-Korean Affairs, Exchanges and Cooperation, Geasong Industrial Complex, http://www.unikorea.go.kr/eng/default.jsp?pgname=AFFexchanges_gaeseong (accessed on November 16, 2008)

¹⁸⁸ Ibid.

Table 2. A Brief Exchange of Goods¹⁸⁹

Exchanges of Goods between the ROK and the DPRK		
Year	Total	KIC
2005	US\$ 1.05 Billion	US\$ 14.9 Million
2006	US\$ 1.35 Billion	US\$ 73.7 Million
2007	US\$ 1.79 Billion	US\$ 184.7 Million
2008*	US\$ 88.79 Billion	US\$ 80 Million
* Data for the first six months of 2008		

While creating wealth inside North Korea, the complex also allows South Korean companies to stay competitive on the international markets as they minimize production costs. This fact achieves the third goal of the President Lee administration's actions toward North Korea, being beneficial to both states while raising the standard of living for all Korean citizens. The potential for future trade remains high, as the transfer of goods across the DMZ continues to grow since 1993 adhering to David Copeland's emphasis on future trade for a successful economic interdependent relationship.

D. THE COOPERATION FROM THE KIC

The KIC has slowly opened the North Korean leadership to assistance from an outside nation while working inside its Juche ideology. Expanding upon the concept of the KIC to other areas with oversight by the ROK can increase its leverage while increasing economic gains for both states. These zones could also serve as a testing ground for new governmental policies similar to the path the PRC took with its own SEZs. These zones allow the DPRK government to continue to work on reforms without causing widespread failure, which can stall the economic development within the state. The close ties present between the DPRK and the ROK since the Sunshine Policy has helped new business policies to penetrate the KIC as the goal of economic development continues on both sides of the 38th parallel.

The security tensions between the DPRK and its surrounding neighbors can be minimized, if not removed completely, after new sources of income are available to the

¹⁸⁹ ROK's Ministry of Unification Website: Intra-Korean Affairs
http://www.unikorea.go.kr/eng/default.jsp?pgname=AFFexchanges_goods (accessed November 5, 2008).

DPRK leadership. The new source of capital can assist in removing the need for nuclear weapons on the peninsula, creating a situation similar to that of Taiwan and the Chinese SEZ of Xiamen, where the threat of military force has diminished. The larger the interdependence between the DPRK and the ROK using SEZs, the more incentives the DPRK will have to remove its nuclear program and cooperate as a trading nation.

Some of the problems experienced during the Chinese SEZs and early DPRK SEZs were resolved within the KIC. The electrical production of the DPRK was insufficient to handle the current or future needs of the KIC, so the ROK connected the complex to the South Korean electrical grid, ensuring a steady supply of energy was available for the production of goods. The ROK also constructed and repaired numerous roads and railroads, enabling the transportation of finished goods to the South Korean markets for sale. These two necessities appear to come from the problems encountered by the Chinese SEZs during its quest for economic modernization and have proven successful for the KIC.

Once investment conditions are stable within the DPRK, additional zone construction can begin to include other nations with historical ties to North Korea, including the PRC and Russia. The ROK must continue to work with any additional nation who chooses to open SEZs within the DPRK as it strives towards the goal of national unification. These nations will not only bring additional capital but new ideas and policies into the closed society that can keep the DPRK economy growing. Allowing these historical allied nations into the DPRK borders is the foot in the door necessary for the rest of the international community to break into this untapped resource including businesses from Taiwan, Japan and various Southeast Asian nations searching for cheap labor.

E. RECOMMENDATIONS

While both Korean states were roughly at the same level of economic development after the Second World War, the ROK was able to use aggressive policies both internally and externally of the state to generate immense economic growth. The early success of the DPRK economic development should not be under estimated, as it

was able to modernize in 14 years. The average annual growth rate during North Korea's industrialized period from 1957 through 1971 was 19.1%.¹⁹⁰ Many of the same variables located within the DPRK following the Korean War are present today. An aging infrastructure, an abundance of labor and the desire of outside nations to assist should be utilized to propel the DPRK economy to a level that is acceptable to merge to two Korean states.

The importation of ideas and technology from the ROK can create a catalyst that can lead to economic growth followed by additional stability on the Korean peninsula. The use of "X" Year Economic plans, can introduce reforms on a rotational basis to modernize the current landscape of North Korea's economy without the shock experienced by Germany during its rapid unification. The ROK can use its own development path to encourage economic cooperation with outside nations that allowed them to grow while focusing on the success of the Korean led reforms during President Park's tenure.

The slow reduction of the DPRK's Juche philosophy is evident through the continual interaction with outside nations, particularly the ROK. Its 1998 constitution demonstrates the desire of the DPRK to engage the international community on a basis where they are equals with foreign nations. The ROK can filter managerial skills and techniques from the international community to the DPRK through SEZs while reducing the economic gap that has been increasing since the late eighties.¹⁹¹ The Juche philosophy must continue to morph, removing the many years of distrust and propaganda about the outside world while introducing influences from outside nations.

The education by observation utilized in the late fifties to reform the agricultural and industrial sectors should be revisited with instructors coming from South Korean companies to remain within the Juche philosophy while stretching the philosophy's borders. These small interactions have the potential to span the entire spectrum of

¹⁹⁰ Hong Sung Un, *Economic Development in the Democratic People's Republic of Korea* (Pyongyang, Korea, 1990), 29. These figures are often seen as over inflated, but they still show the potential for future growth if we view them as doubled.

¹⁹¹ Dai-Won Koh, "Dynamics of Inter-Korean conflict and North Korea's recent policy changes; A inter-systemic view," *Asian Survey* 44, no. 3 (May/June 2004), 426.

business activity from the common worker to the highest levels of management. These close interactions have the potential to increase trust and penetrate areas out side of the business world including politics.

Similar to the South Korean restrictions on imported goods, another law can be instituted to allow the DPRK to maintain a local market for its own goods. Restricting imports helps to increase the demand for local goods as citizens continue to buy the products made within the state's borders. A form of Jueche can be used to create national pride in locally produced goods, similar to the "Made in the U.S.A." campaign of the eighties. A slow influx of foreign made goods can help introduce citizens to new products but must be kept small as the isolated country becomes aware of the outside world and the products it produces.

Recent activity has suggested the creation of informal capitalist markets forming by the citizens to fill the gap left by governmental policies. Estimates in 2001 revealed nearly 300 of these free markets were operating and meet between 70-80% of the urban citizen's needs.¹⁹² These markets should be targeted by outside nations to enlarge the policies within these markets to a larger scale expanding these principles to different areas of the nation, introducing these practices throughout North Korea.

The above recommendations show an argument for economic engagement and how the ROK can use the history of the DPRK's economy to ease the introduction of reforms into the isolated state of North Korea. This path will reduce the economic gap between the two Koreas, create trust and provide an alternate path of income of North Korean leadership vice military sales, all vital for a foundation towards a smooth unification. The divergent paths taken by each Korean state occurred over 50 years ago and we can expect the same length may be needed for the two states to diverge down a policy towards a single Korean nation.

¹⁹² Bradley Babson, "Mynmar and North Korea: Informality in Asia's Pariah States," *SAIS Review* XXI, no. 1 (Winter/Spring 2001), 87.

F. CONCLUSION

The path towards a unified Korean nation will not be easy or quick. Even if an internal collapse of the DPRK occurred, it would take years before a nation emerges close to the current level of South Korea today. The continued security threat throughout the Korean peninsula makes it important for the international community to start planning a vision where a permanent peace is evident. While the three scenarios examined in this thesis are not perfect, they give an alternative to pursuing the status quo of two Korean states that only favors the political elite within North Korea.

The uncertainty associated with the first two scenarios places them behind the expansion of SEZs. The international community understands the potential problems associated with a collapse of the DPRK and hopes to choose an alternate method for unifying the peninsula, but should be ready to respond if a collapse occurs. The potential of a FTA creates the possibility of stimulating economic growth within the DPRK but holds a high probability of failure without the proper oversight within the borders of North Korea as seen in the previous attempts to reform the DPRK economy. Expansion of SEZs to places the power to shape the future of the Korean peninsula into the hands of the ROK continues to be the best scenario that meets the requirements of a unified nation without a nuclear arsenal that participates in the international community.

The increased activity through economic assistance can allow the two Korean states to exchange ideas, people and technology while creating an atmosphere of trust desperately needed before unification plans can move forward. The communication created by the KIC between the two governments can reach beyond basic economics and morph into talks about security and unification. A main attraction and hope of the KIC for future intra-Korean affairs is its conception and creation by the two Korean states and the acceptance by the international community. The continued expansion of the KIC along with the benefits it gives to each state holds the potential for a new era in intra-Korea negotiations.

The ROK can use its own model of development, including self-lead reforms, to persuade the DPRK to accept its business model while still functioning inside the

parameters of the Juche ideology. The inclusion of SEZs in the 1998 Socialist Constitution of the DPRK allows the government to pursue this strategy without losing its legitimacy in the eyes of the DPRK citizens. In the past, the DPRK SEZs have failed to draw enough foreign investment while being located in remote region of the state making logistics a nightmare.¹⁹³ The initial investment needed to modernize the DPRK's economy can come from the ROK as zones similar to the KIC are created allowing South Korean businesses to gain a comparative advantage over competitors in the world market. Focusing on South Korean assistance can slowly overcome the fear of accepting aid from the international community and allow the DPRK to build its economy.

The theory of economic interdependence leads us to believe the threat of conflict can be minimized as both states pursue a common set of goals while their economies continue to be intertwined. Their level of interdependence has been steadily growing economically and through continued communications showing the potential for future trade to continue. The level of interdependence can eventually reach a culminating point where the future of each state focusing on the cooperation with its neighbor forcing both states to cooperate and formulate a common set of goals that can lead to unification.

A continued thaw on the peninsula will demonstrate to foreign nations a North Korea that wishes to open its borders to the international community. Talks need to continue between the two states as they advance their goals for the future. The use of economics has added a variable previously absent in the Intra-Korean equation. This includes a short period where aid temporarily stopped flowing north of the DMZ in response to aggressive behavior by the DPRK. The hard line policies temporarily enacted by South Korea sends a message to the north stating the ability to continue to cooperate does not affect the ROK in the same manner as the DPRK.

The acceptance of the DPRK government to welcome South Korean businesses inside its borders while expanding the KIC holds scenario three as the most practical while its creation garners international praise for cooperation between the two Korean states. Economic engagement should continue as a new era of cooperation on the Korean

¹⁹³ Dai-Won Koh, "Dynamics of Inter-Korean conflict and North Korea's recent policy changes: An inter-systemic view," *Asian Survey* 44, no. 3 (May/June 2004), 431.

peninsula emerges while continuing to push the DPRK to remove the nuclear component of its military. The potential of a leadership change within the DPRK within the next ten years can help swing the policies of the state towards more economic cooperation with the ROK similar to the transition of the PRC following Mao's death. These policies can be more conducive towards the goal of reunifying the nation.

A unified Korean nation will still have to deal with numerous issues including the mistrust between two societies separated by years even after a slow unification process. The governmental elections must be favorable for all citizens within a unified Korea to give an air of transparency that allows the former DPRK citizens to believe in the governmental system and their elected officials. Continued interactions between the two states show cooperation will help ease this transition and must continue after unification.

The potential to station a temporary capital, possibly in Kaesong, will demonstrate a commitment to creating a new nation rather than simply absorbing the DPRK into the ROK. This temporary capital, even if just an economic capital, can allow the citizens in the north to believe their interests are taken into consideration for future policies. Using policies from past Korean dynasties who ruled a united Korean peninsula has the potential to increase the ease of unification and restore the nation's prestige.

The continued economic engagement by the ROK with a continued focus towards decreasing the economic gap while reforming the DPRK's economy through a series of "x" year plans can create the conditions where both states wish to unify the Korean peninsula. The process will be long and drawn-out, but having the two governments continue to keep lines of communication open while striving towards the same goals can help the Korean peninsula reach a single nation under one government that has been absent since the Yi Dynasty. The path of economic engagement will encounter setbacks and roadblocks that will have to be overcome in favor of the new nation. The two Korean states appear to be headed down this path and must continue to expand their ties to set the conditions for unification within the lifespan of the newest citizens.

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